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WAR ON POVERTY—VICTORY OR DEFEAT?

COMPLETED

180

ORIGINAL

HEARING

BEFORE THE

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OF THE

JOINT ECONOMIC COMMITTEE
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NINETY-NINTH CONGRESS

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WAR ON POVERTY—VICTORY OR DEFEAT?

THURSDAY, JUNE 20, 1985

Congress of the United States,
Subcommittee on Monetary and Fiscal Policy
of the Joint Economic Committee,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senators Symms and D'Amato; and Representatives Hawkins and Scheuer.

Also present: Charles H. Bradford, assistant director; and Chris Frenze and Ed Abrahams, professional staff members.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator Symms. Good morning.

We welcome Congressman Hawkins and all the witnesses who are here with us this morning. It gives me great pleasure to welcome all of you here today to examine the basic features of the war on poverty programs and see what conclusions may be drawn about their impact. As we know, the effectiveness of these poverty programs has been debated for many years.

There isn't anyone in this country that isn't dissatisfied with poverty, high unemployment—concentrated in many cases among minorities—lack of educational opportunity, and related social problems. The question is whether programs designated to heip the poor are having the unforeseen effect of actually hurting them.

Several years ago the President stated:

> The welfare system is antiwork, antifamily, inequitable in its treatment of the poor and wasteful of the taxpayers' dollars. It provides incentives for family breakup. In most cases two-parent families are not eligible for cash assistance and, therefore, a working father often can increase his family's income by leaving home. It discourages work.

It has been 8 years since President Carter made this statement in a message to Congress, and the debate continues.

On the other hand, advocates of the Great Society argue forcefully that the programs initiated in the mid-1960's have effectively combated poverty. Though the poverty rate may have trended upward since the late 1960's, in the absence of these social programs the poverty rate might have gone much higher, they argue.

In 1964, the Economic Report of the President laid the foundation for the war on poverty with the argument that poverty can be eliminated by Government programs:

> Conquest of poverty is well within our power. About $11 billion a year would bring all poor families up to the $3,000 income level we have taken to be the minimum for a decent life. The majority of the Nation could simply tax themselves enough to provide the necessary income supplements to their less fortunate citizens. The burden—one-fifth of the annual defense budget, less than 2 percent of GNP—would certainly not be intolerable.

In constant 1980 dollars, outlays for poverty programs are nearly $70 billion, about three and one-half times as much as in the mid-1960's. Despite these expenditures, the poverty rate has not fallen since the late 1960's, but has gradually increased. We all hope that the 1984 statistics will show a decline in the poverty rate when they are released later this year. Many experts predict that this will, indeed, be the case.

We look forward to testimony this morning of our four distinguished witnesses.

Congressman Gus Hawkins is here this morning. He has been very active in many of these programs and has demonstrated a great interest in his many years in the House of Representatives.

Congressman, did you have an opening statement? Is there anything you wanted to say before we start?

Representatives **Hawkins**. Not at this time, Senator, but may I commend you on holding this hearing. Regardless of the views that may be expressed by the experts, it is a serious problem. I think it is one of the major problems facing us. I am glad to see us at this session getting around for a change to discussing such a basic issue. I think it is long overdue. I certainly commend you.

Senator **Symms**. Thank you very much.

I might just say that we have four economists here this morning: Mr. Lowell Gallaway with the department of economics of Ohio University in Athens, OH; Mr. Peter Gottschalk, assistant professor of economics at Bowdoin College in Brunswick, ME; Mr. Robert Greenstein, Center on Budget and Policy Priorities; and Mr. Charles Murray.

Mr. Gallaway, we will start with you.

I think what would make a better hearing here is if we could try to get each of you to make your statement within a 10-minute envelope and then we will have questions. This will provide an opportunity for more discussion of some of these issues.

Mr. Gallaway, we welcome you here this morning. Please go ahead.

STATEMENT OF LOWELL GALLAWAY, ECONOMICS DEPARTMENT, OHIO UNIVERSITY

Mr. **Gallaway**. Thank you, Senator Symms. I especially thank you for inviting me to testify before the subcommittee today. It is now something like a quarter century since the proverty issue emerged on the public scene. I remember those early years well. I was involved with some of the work in which we were trying to define and determine whether poverty was truly structural in character. There might be some debate about it, but my impression was that the broad academic consensus was that the poverty of the early years of the mid-1960's was not structural in character, by and large, which meant it was amenable to being reduced through normal processes of economic growth.

Of course there are time lags in academic life, and by the time we were reaching some consensus on that question the government apparatus of the period had already structured poverty programs on the basis of the assumption that it was structural in character. There were a variety of programs that were developed: direct cash transfers, in-kind transfers, specific projects designed to eliminate the possible handicaps that were felt to be a source of structural poverty, all of these things.

Well, time has passed, enough time that we should indulge ourselves in some sort of evaluation of the effectiveness of these programs. That we need some analysis seems to be very clear. You look at the raw data in the latest statistical releases that are available and you find that the official poverty rate in 1983 was 15.2 percent, and that is half a percentage point higher than it was in 1966 when the war on poverty was in its early years.

The big question is what has happened to produce this really unanticipated result.

On the basis of some analysis contained in a technical document that accompanies my testimony—and I ask that that be included in the hearing record—some fairly straightforward answers seems to emerge. That technical submission is entitled "The New Structural Proverty: A Quantitative Analysis," and it is coauthored by a colleague of mine at the Ohio University, Richard Vedder, and Ms. Therese Foster.

On the basis of that analysis, I turn first to the effects of transfer programs on the poverty rate. By transfer programs, I mean various strategies that are designed to directly enhance the income of the poor through means other than active employment for pay.

The architects of these original transfer programs seem to have suffered from the fairly common Washington malady, which is a firm belief that the supply of resource inputs in the economy is not responsive to changes in their effective prices. In the case of the war on poverty, what that translated into was an assumption there would be no disincentive effects on labor supply associated with a rapid growth in the volume of transfer payments to the poor.

It is worth noting that rather early on there was some suggestive evidence that indicated the widespread presence of such effects. It was partly in response to that evidence, which was indirect in character, that the various negative income tax or income maintenance experiments were designed and funded.

I can't be certain about this, but I think most of us who have been associated with the poverty question over the years feel that the expectation when those experiments were funded was that they would once and for all put to rest the specter of disincentive effects. Well, that evidence is in, and it tends to demonstrate fairly persuasively that direct cash transfers to low income persons do tend to reduce the volume of their work effort.

The clear implication of the presence of disincentive effects is that the income enhancing potential of transfers will be at least partially, perhaps totally, offset by the reductions in work effort they generate.

For example, our technical analysis reveals that in the case of the purest forms of cash and quasi-cash transfers from the Federal Government, the category reported as public aid by the Social Security Administration, there is some threshold level of transfers beyond which additional payments are counterproductive; that is, they lead to higher poverty rates rather than lower, On the basis of the average of our estimates—there were some 40 estimates involved—levels of public aid have exceeded that threshold in every year since 1971, through 1983, which is the last year for which we have poverty data.

Might I interject at this point an observation that the impact of the growth in social welfare programs of the public aid type has extended beyond the measurable economic statistic—the poverty rate. One of our other witnesses today, Charles Murray, has argued that the structure and size of many of our social programs have adverse effects on the stability of the American family. Some of the statistical analysis reported in our technical submission to this hearing confirms Murray's arguments. There is a significant relationship between the magnitude of social welfare programs in the United States and both the rate of divorce and the number of families with a female head, after controlling for other factors that affect these indexes of family performance. Apparently, there is something about the rules of the poverty game that operates to produce important modifications in the structure and stability of the American family.

What does that evidence imply, in general, about the nature and success of the war on poverty? Primarily, from my standpoint, it seems to indicate that the working assumption of the designers of the war on poverty, that poverty was structural in character, became, in effect, a self-fulfilling prophecy.

At the outset, in the early 1960's, poverty was susceptible to being reduced through broad improvements in economic conditions. Not so now. At least that is the way it appears. Apparently, the behavioral changes induced by the growth in social welfare programs associated with the war on poverty have created the very thing that these programs were designed to eliminate, true structural poverty. The result is the existence of a subclass of the American population that is detached from the mainstream of American economic life. These people have become economically alienated, and they are dependent on the largesse of society for their survival.

How far we have come in this respect is suggested by the chart that accompanies my testimony, which is displayed on the easel to the right. It portrays what I and my colleagues call the proverty-welfare curve. It is akin to the Laffer curve in the area of taxation. It shows a relationship between the poverty rate and the level of public aid in which the poverty rate declines for an interval, as aid is increased, until aid reaches the threshold value, and, then, beyond that point there is a positive association between aid and poverty. The more aid, the more poverty, and it is a brand of poverty that may be regarded as being structural in character.

There is one major difference, though, between this structural poverty, the structural poverty of our time, and the structural poverty that was envisaged by the poverty war designers of the 1960's. That early version was rooted in the belief that people were trapped in poverty because of a lack of opportunity.

The new structural poverty, as we call it, is something else. To a much greater extent it is poverty by choice. From time to time, many of those in the poverty cohort will move up and out of that condition. But, there will be other candidates to replace them, and they will continue to come as long as positive incentives are there to join the ranks of the poor.

The particular poverty-welfare curve shown on the chart is derived from a statistical model that yields a representative threshold value of public aid. It can, in a sense, be thought of as a typical case.

We have highlighted on it the 1983 level of aid and the maximum levels that were achieved during the late 1970's. You can see that they are both far beyond the critical threshold level of aid.

At 1983 levels of welfare, every additional $4,000—in 1980 dollars—of Federal public aid expenditures has the effect of putting one more person on the poverty rolls. On a broader scale, what this translates into is a finding that an additional billion dollars of Federal public aid, in 1980 prices, would increase the measured poverty population by a quarter of a million individuals.

We face a great dilemma at this point in our history. The intuitive humane response to rising poverty rates is to want to help, to do something for the poor. Yet, the empirical evidence at this juncture indicates that the conventional ways of helping, by increasing public expenditures on antipoverty programs, will have just the opposite effect on what is intended. Rather than reducing the observed level of poverty, we will increase it.

Difficult as it may seem, reducing levels of public aid may be the only way to significantly lower poverty rates. The time has come for us, as a society, to bite the bullet and face up to the realities of our time. We cannot eliminate poverty by the simple expedient of dumping money out of airplanes. What is required is a structuring of the alternatives available to the potential poverty population that will encourage them to avoid the poverty condition where possible.

I hope you will indulge me for just a few more minutes, Senator Symms. After I prepared my testimony, I constructed an addendum to it. The research process is a never ending one, and some additional findings were developed rather late in the game. They deal with the important subject of rising poverty rates among children and they are embodied in a second technical submission, which is co-authored with Richard Vedder, which is entitled "Suffer the Little Children: The True Casualties of the War on Poverty." I also request that it be included in the record.

In that analysis, we used data from the 1970 and 1980 decennial censuses and performed a formal statistical analysis which shows that, after you control for the effect of the rate of growth in per capita income among States, the highest rates of intercensal growth in children's poverty are in States with high levels of average AFDC payments. Similarly, low levels of such payments are associated with high rates of decline in children's poverty.

The import of these findings is truly depressing. They indicate that a major share of the burden of the new structural poverty is borne by children, who do not have a choice in the matter. They are in a sense the innocent victims of what can be called the folly of much of our welfare system, and it seems to be a folly that has no end.

For example, there is a piece of legislation that has made the rounds in the past few years called the Omnibus Anti-Poverty Act. There are portions of that legislation that approach being sheer madness.

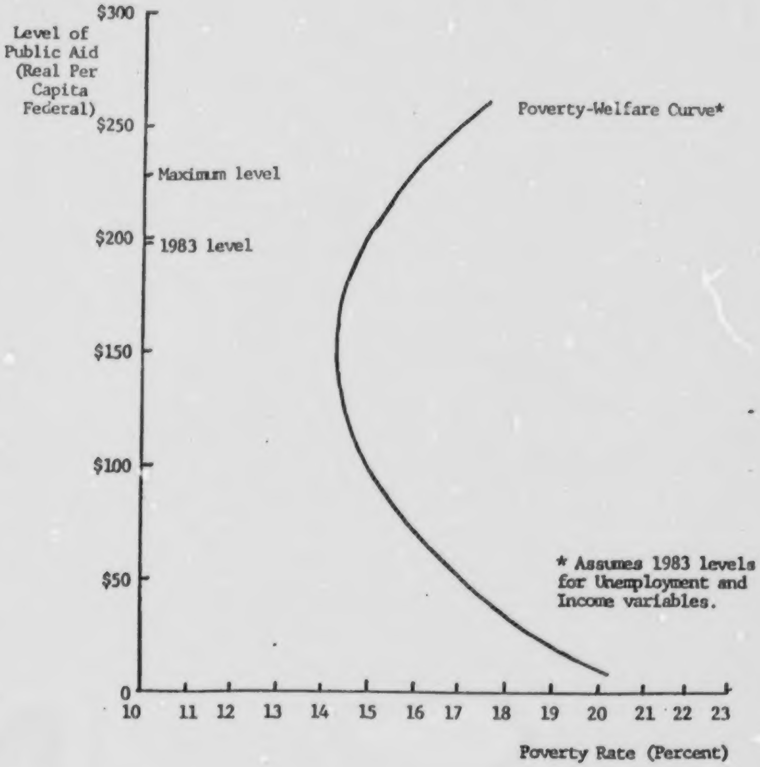
I speak in particular of the attempt to mandate minimum levels of AFDC payments for the States. It is estimated that, in its 1984 form, it would have required 41 States to increase their levels of AFDC payments by 1986, in some cases by more than fourfold over their maximum level in 1984. Very frequently the States that would be most affected are those that have had the most significant successes in reducing the rate of poverty among children over the decade of the 1970's.

It almost seems that if one were to attempt deliberately to design a program to increase the poverty rate among American children, you couldn't do much better than this. I know we may not like the evidence on this point, but we can ill afford to ignore it as this stage in our history.

Thank you for your patience.

Senator SYMMS. Thank you very much.

[The chart attached to Mr. Gallaway's statement, together with the articles referred to for the hearing record, follows:]


Level of Public Aid (Real Per Capita Federal)
$300
$250
Maximum level
$200
1983 level
$150
$100
$50
0
Poverty-Welfare Curve*
* Assumes 1983 levels for Unemployment and Income variables.
10
11
12
13
14
15
16
17
18
19
20
21
22
23
Poverty Rate (Percent)

THE 'NEW' STRUCTURAL POVERTY: A QUANTITATIVE ANALYSIS

by

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Richard Vedder
and
Therese Foster

Economics Department
Ohio University
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Amid the affluence of the early 1960's, poverty was rediscovered in the United States. At that time, the hypothesis was advanced that poverty at mid-twentieth century had become "structural" in character, meaning that those with low income levels were out of the mainstream of economic life in the United States.[1] The policy implications of that contention were powerful, suggesting that significant strides in eliminating poverty could not be made by the simple expedient of stimulating economic growth in the United States. Rather, some set of special programs would be required that would "target" in on the unique problems of the poverty population.

A major source of support for the notion of "structural" poverty was the intellectual community in America. Poverty of the "structural" type represented for some sectors of that world a potential "cause", an issue to be raised in the seemingly never ending negative critique of American society. Structural poverty implied a defect, a shortcoming that would need "fixing". And, of course, the repairman would be government, the federal government in particular. To be sure, there was not unanimity on this score. A rather extended scholarly debate on the merits of the structural poverty thesis sprinkled the academic journals, with the general consensus, at least among economists, being that it had little merit.[2] However, this conclusion had no impact on the real world in which public policy is formulated. While those of us with a technical bent labored in the scholarly vineyards to demonstrate that changes in the poverty rate were quite closely associated with variations in general economic conditions, especially the level of personal income, those closer to the centers of political power argued just the opposite.[3] Their rhetoric triumphed in the arena of public affairs and "The War on Poverty" was born. The totality of the structuralist triumph is indicated by the fact that The War on Poverty began before the academics had even approached a resolution of the structuralist controversy.

The First Two Decades

That was some twenty years ago. What has happened since is a remarkable sequence of events which have taken a number of twists and turns. Some simple statistics should suffice to illustrate the intriguing saga of The War on Poverty. They are shown in Table 1. Begin with the poverty rate itself. The basic data for the period 1953-1983 indicate that the percentage of the population defined as being in the poverty condition declined rather steadily until the early 1970's, falling from 26.2 percent in 1953 to 11.1 percent in 1973. After 1973, though, there is no further decline and, by 1983, the last year for which the official data are available, the poverty rate is actually greater than the 1966 rate of 14.7 percent, when The War on Poverty was in its infancy.

What happened to produce this remarkable turnabout in the behavior of the poverty rate? One possibility is that general economic conditions changed in a fashion conducive to increasing poverty. Admittedly, the 1983 unemployment rate of 9.6 percent is a relatively high one compared to 1973's 4.9 percent. And, there is almost no

Table 1

Poverty Rate, Unemployment Rate, Real Per Capita Federal Public Aid, and Real Per Capita National Income, United States, 1953-1983 (dollar values in 1980 prices)

Year	Poverty Rate	Unemployment Rate	Real Per Capita Federal Public Aid	Real Per Capita National Income
1953	26.2 %	2.9 %	$ 26.31	$ 5,833
1954	27.9	5.5	26.83	5,691
1955	24.5	4.4	27.98	6,146
1956	22.9	4.1	28.00	6,298
1957	22.8	4.3	28.84	6,229
1958	23.1	6.8	29.98	5,985
1959	22.4	5.5	33.16	6,382
1960	22.2	5.5	32.64	6,420
1961	21.9	6.7	35.10	6,444
1962	21.0	5.5	40.11	6,763
1963	19.5	5.7	42.75	6,971
1964	19.0	5.2	44.49	7,279
1965	17.3	4.5	48.40	7,721
1966	14.7	3.8	56.57	8,124
1967	14.2	3.8	65.40	8,248
1968	12.8	3.6	76.54	8,551
1969	12.1	3.5	87.22	8,667
1970	12.6	4.9	100.19	8,425
1971	12.5	5.9	127.49	8,555
1972	11.9	5.6	153.18	9,070
1973	11.1	4.9	158.25	9,506
1974	11.2	5.6	159.62	9,088
1975	12.3	8.5	193.10	8,799
1976	11.8	7.7	216.12	9,190
1977	11.6	7.1	218.57	9,594
1978	11.4	6.1	227.19	9,986
1979	11.7	5.8	222.46	10,072
1980	13.0	7.1	216.78	9,316
1981	14.0	7.6	220.36	9,311
1982	15.0	9.7	192.66	8,993
1983	15.2	9.6	197.54	9,331

Sources: See Appendix A.

growth in real per capita national income between 1973 and 1983. To explore the possibility that the behavior of the poverty rate after 1973 is a mere extentsion of its 1953-1972 pattern, the standard statistical model explaining the poverty rate that evolved out of the early evaluation of the structural hypothesis has been estimated for the intervals 1953-1972 and 1973-1983. That model is expressed in the relationship:

$$(1) \qquad \log P = f(\log Y, \log U)$$

where P denotes the official poverty rate, Y represents real per capita income (in 1980 prices), and U is the unemployment rate. All variables are expressed in logarithms of their true values.

The statistical relationships that emerge are as follows:[4]

$$(2) \qquad \log P_{53-72} = 6.45 - \underset{(9.17)}{1.77} \log Y_{53-72} - \underset{(0.62)}{0.04} \log U_{53-72}$$

and

$$(3) \qquad \log P_{73-83} = 3.52 - \underset{(0.88)}{0.39} \log Y_{73-83} - \underset{(1.51)}{0.16} \log U_{73-83}$$

where the values in parentheses beneath the coefficients represent their associated t-values. A comparison of the two regression equations reveals a very substantial change in the basic relationship between the poverty rate and general levels of economic activity. Clearly, movements in overall levels of income have a much smaller impact on the poverty rate after 1972 than they did before.

The change in the nature of the poverty-income relationship after the early to mid- 1970's suggests that the structuralist hypothesis may have begun to operate at that point in time. Why then, though? An intriguing argument has been advanced by Charles Murray to the effect that the changing nature of the behavior of the poverty rate may be attributed to the rising availability of transfer payment income under various governmental programs that are part and parcel of The War on Poverty.[5] The basic thrust of the Murray argument is that labor supply disincentives created by the availability of transfer payment income have led to people *voluntarily* selecting combinations of money income and leisure which qualify them for being included in the poverty population. It is a controversial thesis but one that has a substantial volume of pre-existing evidence that supports it. Rather early on in the discussions of poverty associated policy proposals, indications of the operation of such disincentive effects began to emerge.[6] That evidence was inferential in character but more direct observations of the working of labor supply disincentives have become available in recent years as the results of the various Income Maintenance (originally Negative Income Tax) Experiments have become available.

Those experiments, sponsored by the federal government, were intended to provide a definitive answer to the disincentive effect question. Many of us who have been associated with the poverty question over the years had the feeling that the advocates of the experiments

We turn first to those who are isolated from labor market sources of income. Their situation can be depicted in a static fashion. Figure 1 shows a distribution of non-labor market income that is skewed to the high income side, that is, it is assumed that disproportionately greater numbers of people in this situation have income below the official poverty level of income. Now, if we introduce a program of cash and quasi-cash transfers of income targeted to the "poor", there will be a systematic shifting of people up to and across the poverty boundary. This suggests the existence of a negative relationship between the volume of transfer payments and the observed level of poverty, contrary to the Murray hypothesis.

We turn now to the second case, involving those with full access to the labor market. This situation is illustrated by the indifference map shown in Figure 2. This is the familiar representation of an individual's leisure-income preferences. We have simplified it to show just one indifference curve and the price (wage rate)-consumption (leisure) locus for the entire indifference map. Also, a poverty level of income has been denoted.

The single indifference curve that is shown in Figure 2 intersects the price-consumption curve at a level of income that exceeds the poverty threshold. Thus, with the wage rate implicit in this situation, participation in the labor market will result in a non-poverty outcome, where poverty is defined in strictly money terms. All this, though, is conditional on the volume of pure money transfer were fairly certain that they would show an absence of disincentive effects. The evidence is now in and it shows quite clearly that labor supply disincentive effects are associated with the availability of transfer payment income. Further, they are systematically related in a positive fashion to both the magnitude and the duration of the payments.[7]

The Public Aid (Murray) Hypothesis

When the results of the Income Maintenance Experiments are considered in combination with the behavior of the poverty rate over time, it becomes legitimate to raise the question of whether disincentive effects are working to raise the poverty rate. This possibility is reinforced by the history of the availability of transfer payment income in the United States. Again, the reference is to Table 1, which shows that the combination of cash and quasi-cash (in-kind) benefits that make up the statistical category of federal government expenditures called public aid has risen dramatically in the United States.

The conventional theory of labor supply offers some potential insights into the effects of these increases on the poverty rate. Consider two sub-groups in the population at risk of experiencing poverty, one that is isolated entirely from the possibility of gainful employment and another that includes individuals capable of being fully employed. Admittedly, these are the extreme cases. However, they illustrate the general range of possible outcomes.

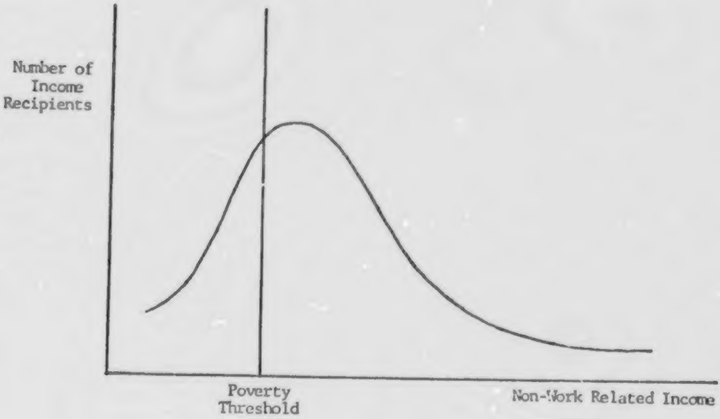
Number of Income Recipients
Poverty Threshold
Non-Work Related Income

Figure 1

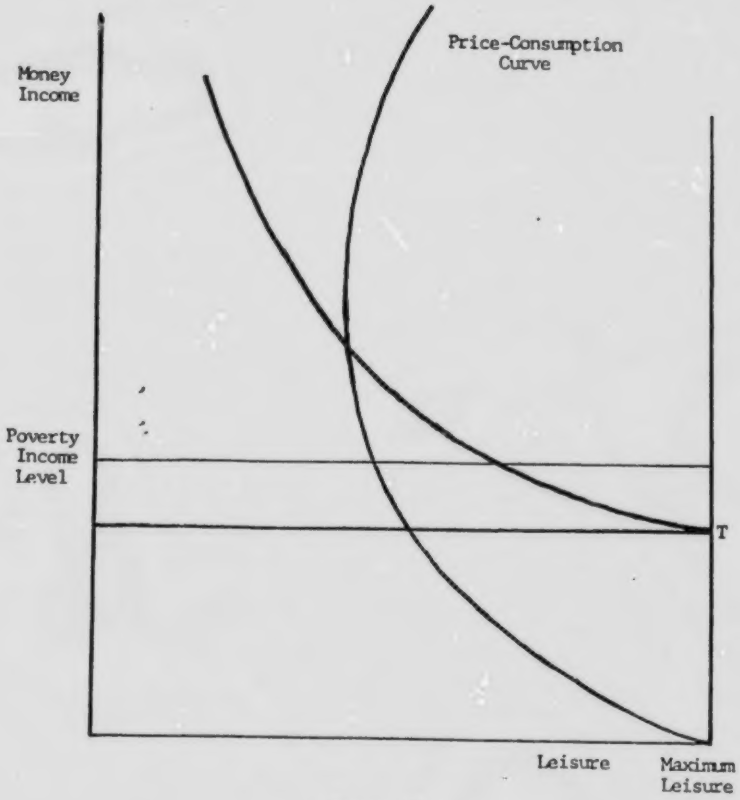
Money Income
Price-Consumption Curve
Poverty Income Level
T
Leisure
Maximum Leisure

Figure 2

payment income available to the individual, if non-participation in the labor market is opted for, being less than some critical value. That value is determined by the point at which the indifference curve shown in Figure 2 intersects the vertical locus describing the maximum amount of leisure (or zero work effort) an individual may choose. This is denoted by the symbol T. If the magnitude of transfer income is greater than T, an individual can move to a higher indifference curve by foregoing labor market activity. In the case shown in Figure 2, *there is a range of transfer income that will shift an individual from a non-poverty condition to a poverty one.*

What this analysis suggests is that an escalation of the magnitude and availability of transfer payment income has the potential of providing positive incentive effects to abandon work effort to individuals whose money income from that activity is only marginally in excess of the poverty threshold. Consequently, for individuals with access to the labor market, higher levels of transfer payment income may produce higher observed levels of poverty. Further, as the magnitude of transfers escalates, this effect may well become stronger and stronger.

In combination, the two cases described here offer a possible explanation for the observed deterioration in the simple poverty-general economic conditions relationship after 1973. As we have seen, the further we move into the War on Poverty years, the greater the volume of transfer payments. The theoretical arguments suggest that as this happens, the work effort disincentive effects in the second case will operate to cancel out the income supplementation effects in the first, producing a relationship between the poverty rate and transfers such as that shown in Figure 3. This is the mechanism through which the Murray hypothesis would be expected to work.

Empirical Tests of the Aid (Murray) Hypothesis

How may we go about empirically evaluating the various dimensions of the impact of transfer payment income on the poverty rate in the United States? We cannot simply add the logarithm of the volume of transfer payments to the previously estimated statistical relationships between the logarithm of the poverty rate and the logarithms of per capita real income and the unemployment rate. That would imply a monotonic relationship between poverty and transfers whereas our theoretical argument suggests a non-montonic possibility. To deal with this problem, we must employ an estimating equation that will permit the relationship between the poverty rate and public aid to assume the form shown in Figure 3. For this purpose, we have adopted a quadratic form of the following type:

$$(4) \qquad P = a + b A + c A^2$$

where A denotes per capita federal public aid measured in 1980 dollars.

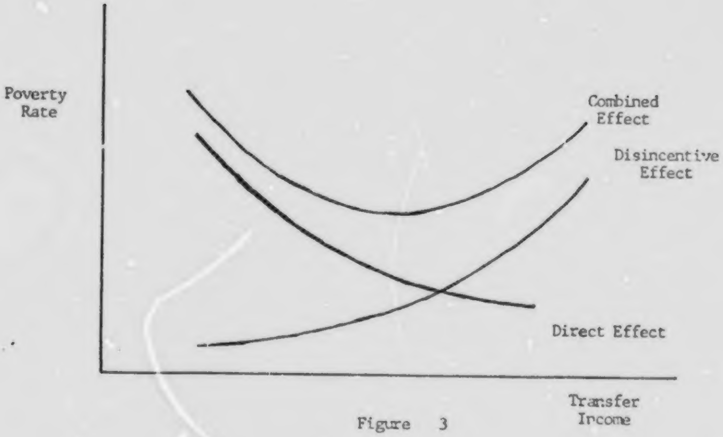
Poverty Rate
Combined Effect
Disincentive Effect
Direct Effect
Transfer Income

Figure 3

If the public aid hypothesis is valid, the value of the parameter b will be negative, c will be positive, and, beyond some point, the quadratic term (A^2) will overwhelm the linear term (A) and additions to public aid will lead to a rise in the poverty rate.

The exact point (or threshold) at which public aid will become counterproductive from the standpoint of reducing the observed poverty rate can be determined by differentiating (4) and setting the result equal to zero, to wit:

$$(5) \qquad dP/dA \;=\; -b \;+\; 2cA \;=\; 0$$

which implies that the threshold occurs at b/2c. Any level of public aid greater than b/2c will lead to a higher poverty rate than at the threshold value for aid.

Employing a quadratic relationship between poverty and public aid means that the general relationship between poverty and the factors we hypothesis to affect it is:

$$(6) \qquad P \;=\; f(Y, U, A, A^2)$$

A number of possible ways of specifying an estimating equation that embodies the relationships of expression (6) are possible, depending on the way in which the poverty, income, and unemployment variables are handled. Of special importance is the treatment of the unemployment variable. The evidence indicates that early in the period 1953-1983, the impact of unemployment on poverty was weaker than in the later years. A part of the problem is the upward drift in the unemployment rate associated with an increase in the "natural", or equilibrium, rate of unemployment in the American economy that is characteristic of the 1970's. Part of that rise in the natural rate of unemployment itself may trace to the increasing volume of public aid. Such aid tends to modify people's labor market search behavior in a way that is likely to produce increases in the observed unemployment rate. Thus, it may be hypothesized that the unemployment rate is a function of a certain set of factors and the level of public aid. Our preferred method of handling this problem is to invoke an unemployment model reported in a 1982 staff study for the Joint Economic Committee and to hypothesize the following:[8]

$$U = f(W, D, P_r, A) \tag{7}$$

where W denotes the level of money wage rates in the economy, D represents the Gross National Product (GNP) deflator, and P_r is the average output of labor. The advantage of this approach is it permits the aid variable in a general estimating equation for poverty to capture the effects of the upward movement in the natural rate of unemployment that may be attributed to increases in aid.

Employing standard U. S. Government data sources for the variables described thus far,[9] a number of different versions of expression (6) have been estimated. Some contain the expanded unemployment notion embodied in (7) and others use the conventional measure of unemployment (in both linear and logarithmic form). In addition, several different forms of the income variable and both linear and logarithmic values for the dependent variable, the poverty rate, are employed. All told, some forty different versions of (6) have been estimated for purposes of this discussion. This was done in order to determine whether the statistical importance of the public aid variables is sensitive to the formulation of the statistical model.

An analysis of the results suggests that the public aid variables perform in a consistent fashion, irregardless of the overall form of the estimating equation. In all forty versions, the linear aid variable has a negative sign and the quadratic aid variable has a positive one. As to statistical significance, 35 of the linear and 36 of the quadratic coefficients are significant at the five percent level.[10] From the standpoint of the stability of the coefficients, the minimum values in the various groupings range from 55.6 % to 90.6 % of their respective maximum values (see Table 2). Thus, in general, the public aid variables in the various forms of the estimating equation perform in a fashion that is consistent with the Murray hypothesis that transfer payments eventually become counterproductive when used as a policy device to reduce the incidence of poverty in the economy.

Table 2

Analysis of Regression Coefficients for Real Per Capita Aid Variables, 40 Statistical Models Explaining Behavior of Poverty Rate, United States, 1953-1983

Characteristic of Coefficient	Coefficient and Nature of Statistical Model*							
	Pov-Expanded		LogPov-Expanded		Pov-NonExpanded		LogPov-Non-Expanded	
	Aid	AidSq	Aid	AidSq	Aid	AidSq	Aid	AidSq
Maximum Value	-.081	.00026	-.0056	.000018	-.1086	.00029	-.0058	.000016
Minimum Value	-.055	.00014	-.0051	.000014	-.0610	.00017	-.0048	.000013
Mean	-.061	.00023	-.0053	.000016	-.0888	.00024	-.0053	.000015
Minimum as % Maximum**	67.8 %	55.1 %	90.6 %	77.5 %	56.2 %	58.2 %	82.7 %	80.1 %
# Significant Coefficients at 5 % Level (Out of 10)	9	9	10	10	7	7	9	10
# Significant Coefficients at 10 % Level (Out of 10)	9	9	10	10	8	9	10	10

Source: Authors' Calculations.

* Pov and LogPov denote, respectively, that the dependent variable in the regression model is the poverty rate and the logarithm of the poverty rate. Expanded means that the model employs the values of money wage rates, the gross national product deflator, and the average producticity of labor as independent variables to take account of the impact of unemployment on the poverty rate. Non-expanded means that either the unemployment rate or its logarithm are used directly as a measure of unemployment.

** Percentages are calculated using values of the coefficients that have not been rounded to the extent shown in table.

One full set of regression estimates is shown in Table 3. They have the linear form of poverty as the dependent variable and the expanded version of the unemployment relationship as independent variables. The overall performance of these regressions in explaining the behavior of the poverty rate over the period 1953-1983 is excellent in a statistical sense, with all the coefficients but one being significant at the five percent level and 98 . percent of the variation in the poverty rate being explained. In addition, they broadly satisfy certain a priori expectations. For example, the coefficients of the wage and GNP deflator variables should be approximately equal with opposite sign. Equal movements in these variables imply a constant real wage rate which, with changes in labor productivity being controlled for, should indicate no change in unemployment and no effect on poverty. Also, notice the constant terms in equations (2) and (5). They are both very nearly equal to 100. This is what one would expect if all the independent variables had values of zero, viz., a poverty rate of 100 percent.

Interpreting the Evidence

Quite clearly, the empirical evidence just reported argues very strongly that beyond some threshold level transfer income of the public aid type will lead to increases in the poverty rate. However, what is that threshold level of public aid? Table 4 provides an answer to that question. The data contained in it give a range of estimates, running from a minimum of $ 110.17 per capita to a

Table 3

Selected Poverty Models, United States, 1953-1983

Model	Regression Parameters								
	Coefficients#								
	Constant	Money Wage Rate	GNP Deflator	Average Productivity of Labor	Income*	Aid**	Aid Squared	$\bar{R}^2$	D-W
1	77.97 (7.87)	0.79 (3.73)	-0.83 (3.41)	-0.49 (5.07)	-0.14 (3.74)	-.0577 (2.28)	.0002604 (3.17)	.98	2.03
2	101.24 (9.92)	0.64 (3.54)	-0.67 (3.24)	-0.31 (2.99)	-23.49 (4.88)	-.0596 (2.65)	.0002299 (3.27)	.98	1.79
3	82.73 (8.73)	0.74 (3.75)	-0.77 (3.44)	-0.41 (4.06)	-2.67 (4.30)	-.0585 (2.45)	.0002479 (3.26)	.98	1.94
4	20.73 (1.53)	0.53 (3.00)	-0.54 (2.72)	-0.24 (2.15)	-186.77 (5.22)	-.0606 (2.80)	.0002087 (3.12)	.98	1.58
5	94.73 (7.99)	0.53 (2.47)	-0.55 (2.25)	-0.23 (1.75)	-9.66 (2.60)	-.0548 (2.42)	.0001881 (2.40)	.98	1.53
					0.41 (1.91)				

Source: Authors' calculations.

* Income is real per capita national income in 1980 prices. The income variables are, respectively, models 1-5, income squared, log income, income, reciprocal of income, and a quadratic form, income and income squared. The first income coefficient in model 5 is for income, the second for income squared.

** Real per capita federal public aid.

The values in parentheses beneath the regression coefficients are t-statistics.

Table 4

Threshold Values for Real Per Capita Federal Public Aid,*
Various Poverty Models, United States, 1953-1983

Threshold Measure	Nature of Statistical Model: Dependent Variable-LogPoverty: Expanded Un-Unemployment	Dependent Variable-LogPoverty: Non-Expanded Unemployment	Dependent Variable-Poverty: Expanded Un-Unemployment	Dependent Variable-Poverty: Non-Expanded Unemployment
Mean Value	$ 161.70	$ 177.18	$ 138.52	$ 183.98
Maximum Value	182.16	190.47	193.78	194.94
Minimum Value	142.00	164.72	110.17	167.05
Minimum as % od Maximum	78.0 %	86.5 %	56.8 %	85.7 %

Source: Authors' Calculations.
* In 1980 prices.

maximum of $ 194.94. Per capita refers to the total population, not just to the poverty population. The overall average of the estimates is $ 165.35.

The most useful estimates of the threshold level of per capita public aid are those using the expanded form of the unemployment relationship in the estimating equation. This is due to this form of the estimating equation shifting the impact of public aid on the unemployment rate to the coefficients of the public aid variable. In the other versions of the estimating equations, there is an indirect effect of public aid on poverty, operating through the unemployment variable, that is not captured by the coefficients of the public aid measures. Focusing just on the expanded unemployment type equations yields an average threshold aid estimate of $ 150.11 per capita.

How does the $ 150 per capita public aid figure compare with actual levels of aid? Referring again to Table 1, we see that the $ 150 level was first exceeded in 1972, the year before the poverty rate reached its all time low. In every year since, through 1983, per capita levels of federal public aid have exceeded that threshold level, by over fifty percent in 1978. Thus, for twelve consecutive years, following 1971, the magnitude of federal public aid was in the range in which it actually resulted in poverty being greater than it would have been with a smaller amount of aid. 1983 levels of public aid were slightly more than thirty percent greater than the $ 150 figure. The gap between the actual level of aid and the average threshold level translates into eleven billion dollars (in 1980 prices) of public aid that has the primary effect of increasing the poverty rate.

To more fully illustrate the impact of current levels of public aid on the magnitude of the poverty population, compared to what it was in 1971, the pure effects of public aid have been calculated for each of the estimating equations reported in Table 3. The results are shown in Table 5. If we take the median outcome, equation 2 (a model, by the way, which we feel is superior to the others in terms of both its logic and performance), it is estimated that the number of people recorded as being in the poverty condition who are there on a voluntary basis was in excess of two million in 1983 and had been more than four million during the late 1970's. It is important to note that this is a minimum estimate. As the level of public aid moves above the threshold level, there are still the direct income enhancing effects of aid that operate to move people out of poverty. What we see in Table 5 is not the gross number of people who have chosen the poverty condition on a voluntary basis, but the net accretion to their numbers. Thus, in some ways, the figures in Table 5 are merely the tip of the iceberg.

The net additions to the poverty ranks as the result of escalating levels of public aid expenditures shown in Table 5 constitute members of a new class in American society, a group that may be

Table 5

Change in Poverty Population Attributable to Change in Real Per Capita Federal Public Aid* Compared to 1971, Various Poverty Models, United States, 1972-1983

Year	Change in Poverty Population**				
	Model 1	Model 2	Model 3	Model 4	Model 5
1972	+ 842	+ 230	+ 569	- 154	- 151
1973	+ 1,040	+ 330	+ 751	- 147	- 148
1974	+ 1,106	+ 344	+ 795	- 167	- 17
1975	+ 3,558	+ 1,869	+ 2,870	+ 733	+ 628
1976	+ 5,064	+ 3,587	+ 5,029	+ 1,947	+ 1,711
1977	+ 6,359	+ 3,809	+ 5,320	+ 2,089	+ 1,837
1978	+ 7,563	+ 4,638	+ 6,348	+ 2,692	+ 2,376
1979	+ 6,910	+ 4,180	+ 5,798	+ 2,339	+ 2,059
1980	+ 6,281	+ 3,667	+ 5,216	+ 1,905	+ 1,669
1981	+ 6,787	+ 4,009	+ 5,655	+ 2,137	+ 1,876
1982	+ 3,636	+ 1,745	+ 2,866	+ 473	+ 389
1983	+ 4,154	+ 2,076	+ 3,308	+ 679	+ 572

Source: Authors' calculations from regression models reported in Table 3.

* In 1980 prices.

** Difference between poverty population in indicated year and poverty population in 1971 as the result of differences in levels of real per capita federal public aid.

regarded as the mainstream of a "new structural poverty". This new form of structural poverty differs significantly from the earlier concept, in which people were presumed to be locked in poverty involuntarily, due to their lack of access to sources of labor market income. Now, the genesis of structural poverty is a set of responses to the availability of non-labor market income that leads people to voluntarily abjure the labor market. To illustrate graphically the minimum magnitude of this form of poverty, we have converted the estimates derived from equation (2) in Table 3 (shown in Table 5) into Figure 4.

The ironic dimension of the new structural poverty is that it is the direct result of a set of public policies that have been geared to eliminating a structural poverty that, by and large, did not exist. In a very real sense, the structural poverty we find today derives from the structuralist hypothesis of yesteryear, representing, more or less, a self-fulfilling prophecy.

Welfare and Family Stability

About the same time that academics began exploring the notion of structural poverty and political decision makers inaugarated The War on Poverty, Daniel Patrick Moynihan issued his famous report detailing how the Negro family was being undermined by public policy, in particular the welfare system.[11] In more recent years, commentators such as George Gilder and Murray have suggested that the eligibility rules for welfare recipients provide enormous economic

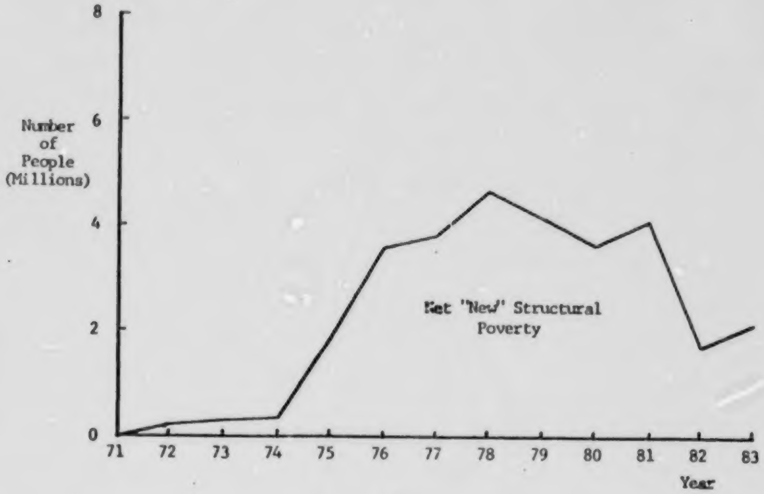
8
6
4
2
0
Number of People (Millions)
Net 'New' Structural Poverty
71
72
73
74
75
76
77
78
79
80
81
82
83
Year

Figure 4

incentives for households to be headed by single women.[12] It is argued that the costs of marriage in terms of lost welfare benefits are greater than the financial and nonfinancial benefits associated with the traditional two parent nuclear family arrangement.

Certainly, the incidence of family instability has risen markedly since the 1960's. At the beginning of that decade, 20.6 percent of black children under the age of 18 lived with their mother only - more than three times the incidence observed for whites, and a large enough proportion to alarm Moynihan. Yet, the numbers for that era look small today. In 1983, for the first time the proportion of black children under age 18 living only with their mother exceeded 50 percent.[13] The single parent family is now the norm among blacks. The incidence of single parent white families has increased likewise, rising from 6.2 to 15.0 percent between 1960 and 1983.

There are many different statistical measures of family instability, but the one that has been maintained the longest and is perhaps the most straighforward in an interpretative sense is the divorce rate. Data are available on a regular basis from at least 1920, allowing for analysis of this phenomenon from a long term historical perspective. Table 6 shows that the mean divorce rate was stable in the 1920's and 1930's, rose in the 1940's, remained stable for another generation, and then skyrocketed in the 1970's. The changes in the divorce rate do seem to parallel historical changes in welfare expenditures, particularly in regard to explaining the recent experience.

Table 6

Divorce Rate, by Decade, 1920-1983

Decade	Mean Divorce Rate*
1920'2	1.56
1930's	1.65
1940's	2.78
1950's	2.36
1960's	2.66
1970's	4.57
1980's	5.10

*Per 1,000 population; mean is the average of the 10 years comprising the decade, except for the 1980's, where the mean is for the years 1980-1983.

Sources: U. S. Department of Commerce, Historical Statistics of the U. S., Colonial Times to 1970, and Statistical Abstract of the United States, various years.

Some researchers, however, believe this relationship between rising divorce and increases in welfare payments is no more than a coincidence. Writing in the Wall Street Journal on May 15, Richard D. Coe and Greg J. Duncan assert, "there is no conclusive evidence of strong links between the generosity of existing welfare programs and the incidence of births, divorces, marriages or remarriages." David Ellwood and Mary Jo Bane conclude, "welfare simply does not appear to be the underlying cause of the dramatic changes in family structure of the past two decades."[14]

Who is right - Moynihan, Gilder, and Murray, or Coe, Duncan, Ellwood, and Bane? To examine this question, we have gathered data on public assistance and the divorce rate for 10 four year periods, beginning with 1944-47 and ending with 1980-83. Four year periods are used in order to reduce problems associated with the time lag between marital separation and the issuance of a divorce decree, as well as short term fluctuations in divorce related more to the vicissitudes of the business cycle rather than longer term developments.

One other phenomenon that might explain rising divorce has been the great upsurge in inflation. Rising prices, particularly when unanticipated, pose financial strains for families, increasing pressures for female labor force participation and reducing the advantages of trading arrangements that form the economic basis of the modern family.[15]

We regressed the divorce rate against real per capita federal public assistance payments per capita and the percentage increase in consumer prices (compared with the previous four year period). The results are impressive:

$$(8) \qquad D = 1.836 + \underset{(5.138)}{.039}\ Pr + \underset{(5.786)}{.008}\ A\ , \quad \bar{R}^2 = .96,\ D\text{-}W = 1.62$$

where D denotes the divorce rate, Pr the rate of change in prices. A the public aid measure, and the values in parentheses beneath the coefficients are t-statistics.

Expression (8) suggests a very strong statistical relationship between the divorce rate and both the rate of price inflation and the level of public aid payments. These factors, alone, can explain 96 percent of the considerable variation in the divorce rate over these forty years.

Between 1964-67, the beginning of The Great Society, and 1976-79, when the divorce rate peaked, that rate more than doubled, going from 2.5 to 5.2 per 1,000 population. Applying the coefficients from expression (8) to the actual increases in public aid and inflation, we observe that 1.36 percentage points (50 percent) of the 2.70 percentage point growth in the divorce rate is explainable by welfare growth, while 1.27 percentage points (47 percent) is explainable by increased inflation. While the results do suggest that unfortunate macroeconomic policies were also important, they are also highly consistent with the Moynihan-Gilder-Murray view. They indicate that, by the late 1970's, the number of divorces had risen by about 300,000 annually because of the increasing volume of welfare payments associated with the statutory changes of the mid-Sixties and after.

Moving further along these lines, we have estimated a variety of statistical models to explain the most obvious outward manifestation of family change, the rise in the relative number of families with a female head, a phenomenon that was discussed earlier. In this case, the Moynihan-Gilder-Murray hypotheses suggest that the percentage of families with a female head will be positively related to the availability of public aid. In addition, we introduce as explanatory variables the degree of labor force participation among females and real per capita national income.[16] A representative result is the following:

$$(9) \qquad \log F = 1.56 + \underset{(4.13)}{.00085\,A} + \underset{(8.74)}{.02363\,L} - \underset{(3.27)}{.02799\,Y}$$

where log F is the logarithm of the number of families with a female head (expressed as a percentage of all families), A is the familiar public aid variable, L is the labor force participation rate for females (aged 20 and over), and Y is real per capita national income. Again, the values in parentheses beneath the regression coefficients are t-statistics. Clearly, all the variables are highly significant in a statistical sense. Our interest is in the public aid measure. On the basis of an average of the regression coefficients from a number of statistical models of this sort, we estimate that an additional one dollar of per capita aid (between 200 and 250 million dollars in 1980 prices) has the effect of producing an additional 5,000 families with a female head. The Moynihan-Gilder-Murray conjectures are strikingly confirmed and the Ellwood-Bane conclusion that welfare is not related to changes in family structure is called into serious question. With respect to the disagreement between our findings and those of Ellwood and Bane, it is worth noting that a recent study by the Congressional Research Service, reported in Children in Poverty, prepared for the Committee on Ways and Means of the U. S. House of Representatives, agrees with our conclusions. Using cross-sectional data, rather than time series information, it finds that Aid to Families with Dependent Children (AFDC) payments, a major component of our public aid variable, have "had a dramatic impact on the living arrangements of young single mothers, increasing the proportion who set up their own households."[17] It further finds that such benefits had an effect on divorce and separation rates, especially among younger mothers.

Collectively, these findings suggests that the externalities, or "spill over effects", of public aid type transfers of income to low income members of the society cannot be ignored. While it is difficult to quantitatively measure their impact in dollar terms, it appears that the social costs to the country of these externalities probably far exceed those suggested by a simple examination of the official poverty rate statistics.

Concluding Remarks

One powerful theme seems to emerge from the preceding analysis of the empirical data that describe the poverty-welfare nexus. The War on Poverty, after some apparent early successes, has been lost. Far from accomplishing its intended goal of reducing the volume of structural poverty in the economy, it has created its own version of such poverty, a "new" structural poverty that is entered into by choice, simply because it is more attractive than a non-poverty condition. This is not a new development, something that is unusual in time and place. A careful reading of the historical experience indicates that it has happened before. One example: The Speenhamland Laws that pauperized the laborers of England in the early 19th century.[18] Intended to provide a guaranteed minimum income for all, they encouraged the condition they were intended to alleviate, just as transfer payments in late twentieth century America operate to produce poverty rather than eliminate it. How far we have gone in this respect is suggested by Figure 5, which portrays what we call the poverty-welfare curve for the United States. Akin to the Laffer Curve in the area of taxation, it shows a relationship between the poverty rate and public aid in which the poverty rate declines for an interval as aid is increased until aid reaches the previously described threshold level. Beyond that point, there is a positive association between aid and poverty.

The particular poverty-welfare curve shown in Figure 5 is derived from a regression model that yields approximately the average threshold value of aid for those models using an expanded unemployment format. Thus, it can be thought of as a "typical" case, given 1983 levels of the other variables in the regression model. We have highlighted in this diagram the 1983 level of aid and the maximum level of aid that was reached during the late 1970's. Both

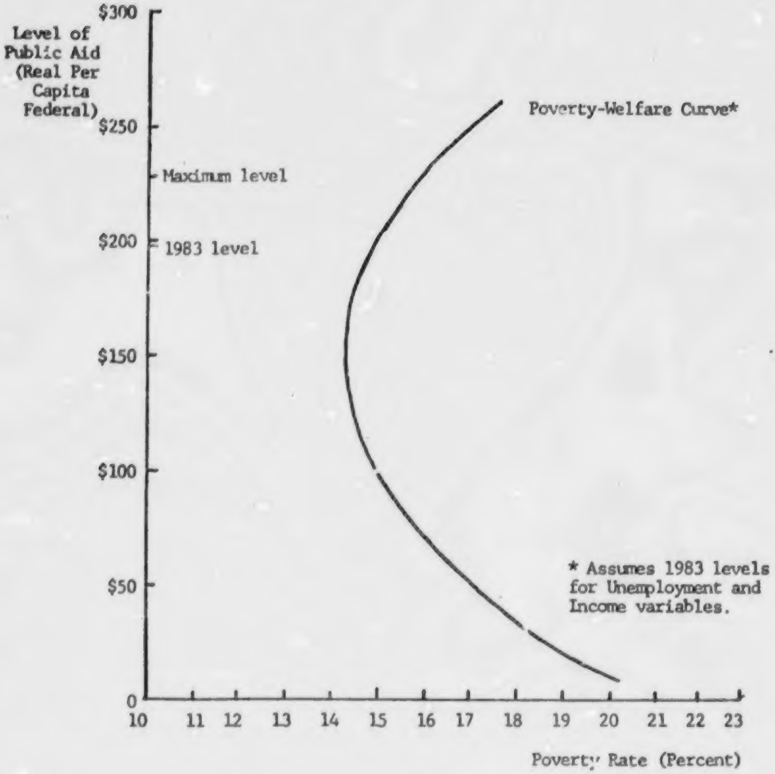
Level of Public Aid (Real Per Capita Federal)
$300
$250
Maximum level
$200
1983 level
$150
$100
$50
0
10
11
12
13
14
15
16
17
18
19
20
21
22
23
Poverty Rate (Percent)
Poverty-Welfare Curve*
* Assumes 1983 levels for Unemployment and Income variables.

Figure 5

of these are far beyond the threshold value for aid, meaning that the United States is well into the Speenhamland phase with its welfare programs. At 1983 levels of public aid, every additional $ 4,000 of federal public aid expenditures has the effect of putting one more person on the poverty rolls. At present, all that seems to be at issue is how attractive we will choose to make the poverty condition. That, by and large, will determine the size of the poverty population in America.

FOOTNOTES

1. Representative works arguing this position are John Kenneth Galbraith, The Affluent Society (Boston: Houghton Mifflin Co., 1958) and Michael Harrington, The Other America (New York: Macmillan, 1962).

2. See, for example, Lowell Gallaway, "The Foundations of the War on Poverty," American Economic Review, March 1965; Henry Aaron, "The Foundations of the War on Poverty Reexamined," American Economic Review, December 1967; W. H. Locke Anderson, "Trickling Down: The Relationship Between Economic Growth and the Extent of Poverty Among American Families," Quarterly Journal of Economics, November 1964; and Oscar Ornati, Poverty Amid Affluence: A Report on a Research Project (New York: The New School for Social Research, The Twentieth Century Fund, 1966).

3. By 1967, the structuralist argument was firmly in place. Tom Wicker, "The Right to Income," New York Times, December 24, 1967, summarized the structuralist position in these words, "Thus the aim of getting everyone off welfare and into participation in our affluent society is unreal and a pipe dream ......" He then goes on to add that a "decent standard of living ought to be made available not just to an eligible few but to everyone, and without degrading restrictions and policelike investigations."

4. These regressions reflect a Cochran-Orcutt autoregressive adjustment scheme. Consequently, such standard regression parameters as R^2 and $\bar{R}^2$ are of doubtful validity and are not reported.

5. Charles Murray, Losing Ground (New York: Basic Books, 1984). Many of Murray's arguments and conclusions are anticipated by Warren Brookes, the nationally syndicated newspaper columnist. For examples, see Warren T. Brookes, The Economy in Mind (New York: Universe Books, 1982), Chapter 7.

6. For example, W. H. Locke Anderson, op. cit., identified three sub-groups of the population for which the "structuralist" hypothesis might be valid: (1) the aged, (2) females, and (3) those living in rural America. Not blacks, though! However, a disincentive, or labor supply adjustment, explanation for the aged is provided in Lowell Gallaway, "The Aged and the Extent of Poverty in the United States," Southern Economic Journal, October 1966. See also, Gallaway, "Negative Income Taxes and the Elimination of Poverty," National Tax Journal, September 1966; Michael Taussig, "Negative Income Tax Rates and the Elimination of Poverty: Comment," and Gallaway's, "Reply", National Tax Journal, September 1967. Other evidence appeared but was often ignored. For example, see Hirschel Kasper, "Welfare Payments and Work Incentive: Some Determinants of the Rates of General Assistance Payments," Journal of Human Resources, Winter 1968, in which a strong empirical relationship between general assistance case loads and benefit levels is reported (an elasticity of about one-half), only to have it discounted in the author's conclusions. Another frequently overlooked piece is Carl T. Brehm and Thomas R.

Saving, "The Demand for General Assistance Payments," American Economic Review, December 1964. A bit later, more evidence along this line, dealing with the responsiveness of the unemployment rate to the availability of unemployment compensation benefits, may be found in Gene Chapin, "Unemployment Insurance, Job Search, and the Demand for Leisure," Western Economic Journal, March , 1971. These findings were confirmed later in Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies, National Tax Journal, June , 1974.

7. See, in particular, the Fall 1980 issue of the Journal of Human Resources and Robert A. Moffit, "The Negative Income Tax: Would It Discourage Work?," Monthly Labor Review, April 1981. Even earlier, Robert Hall, "Effects of the Experimental Income Tax on Labor Supply," in Joseph A. Pechman and Michael Timpane, eds, Work Incentives and Income Guarantees: The New Jersey Negative Income Tax Experiment (Washington, D. C.: The Brookings Institution, 1975), provides an analysis that anticipates the later findings. Again, though, it was systematically ignored, even by the editors of the volume in which it appeared. For a discussion of the results of the income maintenance experiments, see Murray, op. cit., pp. 150-52. The amazing thing in all this is the studied indifference with which the evidence of disincentive effects has been treated by the "poverty establishment"

8. Lowell Gallaway and Richard Vedder, "The 'Natural' Rate of Unemployment," Staff study, Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee, Congress of the United States (Washington, D. C.: U. S. Government Printing Office, December 17, 1982).

9. Appendix A details the various data sources employed in this analysis.

10. A summary of regression results for all forty models is contained in Appendix B.

11. See Daniel P. Moynihan, The Negro Family: The Case for National Action (Washington, D. C.: U. S. Department of Labor, March 1965)

12. See George Gilder, Wealth and Poverty (New York: Basic Books, 1980) and Murray, op. cit.

13. See U. S. Bureau of the Census, Current Population Reports, series P-20, no. 389, or U. S. Bureau of the Census, Statistical Abstract of the United States, 1985 (Washington, D. C.: U. S. Government Printing Office, 1985), p. 46, for reference to the statistics referred to in this paragraph.

14. See page 32 for the articles by Murray and Coe and Duncan.

15. For a more detailed discussion of the economics of divorce as well as empirical evidence relating to the rising incidence of American divorce, see our, "Inflation, Migration, and Divorce in Contemporary America," in Fred Glahe, ed., The Family and the State (San Francisco: The Pacific Institute for Public Policy Research, forthcoming).

16. See footnote 4.

17. Children in Poverty, Committee Print, Committee on Ways and Means, U. S. House of Representatives (Washington, D. C.: U. S. Government Printing Office, May 22, 1985), p. 13.

18. For a description of the Speenhamland system and its impact on labor supply, see Karl Polanyi, The Great Transformation (Beacon Press, 1977).

APPENDIX A

The data sources for the measures employed in analyzing the behavior of the poverty rate in the United States are as follows:

(1) POVERTY RATE: U. S. Bureau of the Census, Current Population Reports, Series P-60, various issues.

(2) UNEMPLOYMENT RATE: U. S. Bureau of Labor Statistics, Employment and Earnings, various issues.

(3) MONEY WAGE RATE: Compensation per hour, business sector, as reported in Table B-40, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

(4) GROSS NATIONAL PRODUCT DEFLATOR: Implicit price deflator, business sector, as reported in Table B-40, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

(5) AVERAGE PRODUCTIVITY OF LABOR: Output per hour of all persons, business sector, as reported in Table B-40, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

(6) NATIONAL INCOME: as reported in Table B-19, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

(7) CONSUMER PRICE INDEX: as reported in Table B-52, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

(8) FEDERAL PUBLIC AID: Federal public aid as reported by the Social Security Administration in the Social Security Bulletin, various issues.

(9) POPULATION: U. S. Bureau of the Census, Current Population Reports, Series P-25, various issues.

(10) DIVORCE RATE: U. S. Bureau of the Census, Current Population Reports, series P-20, various issues.

(11) FAMILIES WITH FEMALE HEAD: U. S. Bureau of the Census, Current Population Reports, Series P-20, various issues.

(12) FEMALE LABOR FORCE PARTICIPATION RATE: as reported in Table B-32, Economic Report of the President (Washington, D. C.: U. S. Government Printing Office, 1985).

APPENDIX B

Per Capita Aid Coefficients and Threshold Values of Per Capita Aid*, 40 Statistical Models of Poverty, United States, 1953-1983

Model Form	Regression Coefficients		Nature of Income Variable **	Threshold Value of Public Aid
	Aid	Aid Squared		
LogPoverty-Expanded Unemployment-Autoregressive Adjustment	-.0053256#	.00001821#	PCNYSQ	$ 146.23
	-.0056175#	.00001665#	LRPCNY	169.71
	-.0054970#	.00001757#	RPCNY	152.41
	-.0053556#	.00001470#	PCYREC	182.16
	-.0055101#	.00001531#	PCNYSQ & RPCNY	163.86
LogPoverty-Log Unemployment-Autoregressive Adjustment	-.0051557#	.00001441#	PCNYSQ	178.20
	-.0047764@	.00001314#	LRPCNY	181.75
	-.0051855#	.00001574#	RPCNY	164.72
	-.0054093#	.00001420#	PCYREC	190.47
	-.0057751#	.00001592#	PCNYSQ & RPCNY	181.38
LogPoverty-Unemployment-Autoregressive Adjustment	-.0057309#	.00001640#	PCNYSQ	174.72
	-.0051387#	.00001475#	LRPCNY	174.19
	-.0054337#	.00001565#	RPCNY	173.60
	-.0053903#	.00001501#	PCYREC	179.55
	-.0052453#	.00001514#	PCNYSQ & RPCNY	173.23
LogPoverty-Expanded Unemployment***	-.0052029#	.00001832#	PCNYSQ	142.00
	-.0051855#	.00001574#	LRPCNY	164.73
	-.0051912#	.00001719#	RPCNY	150.99
	-.0051562#	.00001419#	PCYREC	181.68
	-.0050897#	.00001553#	PCNYSQ & RPCNY	163.22
Poverty-Expanded Unemployment-Autoregressive Adjustment	-.0577287#	.0002622#	PCNYSQ	110.17
	-.0663234#	.0002418#	LRPCNY	137.14
	-.0595363#	.0002476#	RPCNY	122.24
	-.0808615#	.0002328#	PCYREC	173.67
	-.0560019	.0001445	PCNYSQ & RPCNY	193.78
Poverty-Log Unemployment-Autoregressive Adjustment	-.1029269#	.0002640#	PCNYSQ	194.94
	-.0957595#	.0002520#	LRPCNY	190.00
	-.0997982#	.0002586#	RPCNY	192.96
	-.0864614#	.0002314#	PCYREC	186.82
	-.0776700@	.0002022@	PCNYSQ & RPCNY	192.06

APPENDIX B (Continued)

Model Form	Regression Coefficients		Nature of Income Variable **	Threshold Value of Public Aid
	Aid	Aid Squared		
Poverty-Unemployment-Autoregressive Adjustment	-.1085783#	.0002949#	PCNYSQ	$ 184.09
	-.0851431#	.0002418#	LRPCNY	174.52
	-.1002202#	.0002792#	RPCNY	179.48
	-.0702270	.0002102@	PCYREC	167.05
	-.0610323	.0001716	PCNYSQ & RPCNY	177.83
Poverty-Expanded Unemployment***	-.0577331#	.0002604#	PCNYSQ	110.85
	-.0595512#	.0002299#	LRPCNY	129.52
	-.0584523#	.0002479#	RPCNY	117.09
	-.0605617#	.0002087#	PCYREC	145.09
	-.0547999#	.0001881#	PCNYSQ & RPCNY	145.67

Source: Authors' calculations.

* Real per capita federal public aid in 1980 prices.

** Real per capita national income in 1980 prices. The codes for the income variables are as follows: PCNYSQ=income squared; LRPCNY = log income; RPCNY = income; PCYREC = the reciprocal of income; and PCNYSQ and RPCNY make up a quadratic form of the income variable.

*** In the absence of an autoregressive adjustment, the Durbin-Watson statistics are important. The respective D-W's for the log poverty-expanded unemployment models are: 1.87, 1.55, 1.75, 1.36, and 1.57. For the poverty-expanded unemployment models, they are: 2.03, 1.79, 1.94, 1.58, and 1.53.

# Significant at the five percent level or beyond. One-tailed test.

@ Significant at the ten percent level or beyond. One-tailed test.

"SUFFER THE LITTLE CHILDREN": THE TRUE CASUALTIES OF THE WAR ON POVERTY

by

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The evidence with respect to the relationship between the volume of poverty and the level of money income transfers to the low-income segments of the population is mounting and it presents a compelling case for the existence of poverty "by choice".[1] Elsewhere, we call this the "new" structural poverty, by which we mean that people choose poverty levels of money income over non-poverty levels because they feel the combination of income and leisure accompanying "poverty" to be preferable to that associated with non-poverty.

Voluntary poverty of the type envisaged in the concept of a "new" structural poverty has quite different implications than poverty of an involuntary nature, especially from the standpoint of the social well-being of those recorded as being in the poverty condition. Specifically, in the case of poverty "by choice" it would seem that those who voluntarily select poverty status in preference to a non-poverty situation must feel that they are "better off" in terms of overall satisfaction as the result of being in poverty. If this is true, the mere fact that they are observed as being in poverty does not mean that society should regard them as somehow automatically being candidates for further societal largesse. At the extreme, if all observed poverty were of this type, the meaning of the poverty rate as an indicator of social malaise would be the reverse of the conventional notion that the higher the poverty rate, the poorer the performance of the society in taking care of its low income members. In the case of poverty by choice - the "new" structural poverty - a higher poverty rate indicates a more satisfied lower income population.

Of course, all this is conditional on the proposition that all those who constitute the "new" structural poverty are a part of this group by choice. Unfortunately, this is not the case. There is one very significant component of the "new" structural poverty that has not voluntarily opted for the poverty condition, namely, related children within family units, who, more often than not, are the very rationale for the existence of the transfer payment income that induces their parents to elect the poverty condition.

How important is the possibility outlined above? Apparently, quite substantial. The data of Table 1 describe the changing patterns of poverty rates among related children, by state, during the decade of the 1970's. These data are calculated from the 1970 and 1980 decennial censuses.[2] They are presented here in the form of the percentage change in the poverty rate for children across the decade in question. Perhaps the most striking feature of this statistical measure is its volatility across the states. At one extreme, New Jersey, the poverty rate among children rose by 53.2 percent between 1969 and 1979 while, at the other, Wyoming, it fell by 34.7 percent. Such differences cry for an explanation.

Perhaps the most obvious possible source of these widely variant poverty experiences among the states is differing economic conditions. There is a sizable degree of variation in the rates of economic growth among the states. Thus, this variable should be given serious consideration in any explanation of the diverse rates of change in poverty

Table 1

Percentage Change in Poverty Rate Among Related Children Under Age 18, by State, 1969-1979

State	Percentage Change in Poverty Rate
Alabama	- 19.5
Arizona	- 7.8
Arkansas	- 25.2
California	19.7
Colorado	- 9.4
Connecticut	46.2
Delaware	26.8
Florida	- 3.6
Georgia	- 12.4
Idaho	12.6
Illinois	35.5
Indiana	28.0
Iowa	13.9
Kansas	- 5.0
Kentucky	- 13.3
Louisiana	- 21.7
Maine	9.0
Maryland	8.7
Massacusetts	48.9
Michigan	41.5
Minnesota	7.3
Mississippi	- 26.4
Missouri	- 2.0
Montana	3.8
Nebraska	- 0.8
Nevada	9.9
New Hampshire	19.0
New Jersey	53.2
New Mexico	- 17.2
New York	49.6
North Carolina	- 22.5
North Dakota	- 10.1
Ohio	32.0
Oklahoma	- 20.3
Oregon	11.1
Pennsylvania	27.5
Rhode Island	16.2
South Carolina	- 26.8
South Dakota	5.8
Tennessee	- 16.3
Texas	- 13.8

Table 1 (Concluded)

State	Percentage Change in Poverty Rate
Utah	0.9
Vermont	20.9
Virginia	- 17.2
Washington	17.3
West Virginia	-23.9
Wisconsin	16.9
Wyoming	- 34.7

Source: Table 2, Appendix H, Children in Poverty, Committee Print, Committee on Ways and Means, U. S. House of Representatives (Washington, D. C.: U. S. Government Printing Office, 1985), pp. 613-614.

among children. In addition, there is, of course, the possibility that the poverty-non-poverty choices implicit in the concept of the "new" structural poverty spill over into the poverty experience of children. Consequently, the relationship between the incidence of change in poverty among children and the availability of transfer payment income must be explored.

We can begin the exploration with a rather straightforward excursion into the realm of economic theory. Consider the family unit, however defined, to be an income maximizing entity. For now, we choose to ignore any non-pecuniary benefits or costs associated with the rearing of children. Now, under these conditions, maximizing behavior would seem to dictate that children will be produced only if the discounted present value of the stream of income they generate exceeds the discounted present value of the monetary cost of rearing them. Combining these two considerations in one relationship, the critical determinant of whether it is profitable to have children is the discounted present value of the difference between the marginal increment to income they provide and the marginal cost of rearing, i. e.,

$$(1) \qquad B_c = \sum_{i=0}^{n} (MR_c - MC_c)_i/(1 + r)^i$$

where B_c denotes the benefits from having children, MR_c is the marginal revenue from children, MC_c is the marginal cost of children, r is an appropriate discount rate, and n is the number of years the children reside within the family unit, from birth.

If B_c is positive for some finite n, the production of children is a profitable enterprise. If negative, child rearing is not, although it may still be engaged in for the sake of non-pecuniary benefits associated with the existence of children.

For our purposes, expression (1) is useful if we can obtain data describing the marginal revenue and marginal cost associated during the years within the family unit. Fortuitously, some estimates of this variety are available. On the cost side, United States Department of Argiculture USDA) estimates of child-rearing costs have been calculated.[3] We treat as marginal costs food, clothing, medical care, education, and certain miscellaneous expenditures. We use ninety percent of the economy budget cost levels estimated by the USDA in 1983 dollars. The rationale for using ninety percent of the economy cost level is that the income brackets these estimates embrace are in excess of the poverty threshold level of income on the high side.[4] The calculated marginal costs, for various years of age, between birth and the attainment of the 18th birthday, are shown in Table 2.

On the other side of the coin, the marginal revenue of a poor child depends on the level of transfer payment income generated by the presence of such a child. Confining ourselves to those situations in which a family unit is already established, we approximate the marginal revenue of an additional child by equating it with the sum of the average cash and food stamp benefits available per poor child. Table 3 shows these for the years 1974-1979, the latter part of the

Table 2

Estimated Marginal Cost of Rearing Children, Various Age Levels

Age	Marginal Costs (1983 Dollars)
Less than 1	$ 770
1	836
2-3	851
4-5	943
6	1,057
7-9	1,147
10-11	1,257
12	1,317
13-15	1,392
16-17	1,497

Source: United States Department of Agriculture, Agricultural Research Service. _USDA Estimates of the Cost of Raising a Child, A Guide to Their Use and Interpretation_, Miscellaneous Publication Number 1411 (Washington, D. C.: U. S. Government Printing Office, 1981), updated.

Table 3

Average Cash and Food Stamp Benefits Per Poor Child, 1974-1979

Year	Average Benefits (1983 Dollars)
1974	$ 1,252
1975	1,308
1976	1,446
1977	1,418
1978	1,295
1979	1,225
Average:	
1974-1979	1,324

Source: Table 6-4, Children In Poverty, Committee Print, Committee on Ways and Means, U. S. House of Representatives (Washington, D. C.: U. S. Government Printing Office, 1985), p. 182.

decade referred to in the calculation of percentage changes in the poverty rate among children reported in Table 1. The average yearly benefit level for these six years is $ 1,324 (1983 prices) according to materials prepared by the Congressional Research Service for the Ways and Means Committee of the U. S. House of Representatives.[5]

A casual examination of the data of Table 2 indicates that the marginal revenue associated with rearing a poverty child exceeds the marginal costs up to about age 12. If we assume that the child remains with the family through his or her 17th year, the value of B_c in expression (1) is $ 2,969 (1983 prices), using a three percent real discount rate. This is probably an understatement of B_c for a variety of reasons:

1. Discounting up to the 18th birthday is probably inappropriate. Poverty children are quite likely to leave the household before that age.
2. The real discount rate of three percent is probably higher than warranted.
3. No account is taken of income that may be generated by children as they enter their older years.
4. The true marginal revenue of rearing children is probably understated due to non-inclusion of certain other forms of welfare benefits.
5. The true marginal revenue of rearing children is understated to the extent there is any family income subject to income taxation (the impact of the individual exemption).

6. The true marginal costs are perhaps overstated because living standards are not maintained at ninety percent of the economy cost level.

Whatever the true value of B_c, it seems clear that it is positive, meaning that, at the margin, it is profitable to have children if they qualify for the standard stream of welfare benefits. In effect, children become the "meal ticket" for the family enterprise. To illustrate the importance of children in this respect, we have estimated a Robinsonian exploitation rate for them at different age levels, using the relationship

$$(2) \qquad E = (MR_c - MC_c)(100)/(MR_c)$$

where E denotes the exploitation rate.[6] The results are shown in Table 4. During the first year of life, the typical "poor child" is subject to a 42 percent rate of exploitation. Exploitation continues to be positive through age 12 and then turns slightly negative up to age 18. Over their total lifetime, the exploitation rate for children averages 12.5 percent, meaning that children receive only seven-eighths of the transfer payment income they generate for their parents.

All of this is to suggest a formal statistical hypothesis of the following form:

$$(3) \qquad PC_i = a + b\,A_i + c\,Y_i + u$$

where PC denotes the percentage change in the poverty rate for children reported in Table 1, A is a measure of the availability of transfer

Table 4

Rate of Exploitation of Children, by Age

Age	Exploitation Rate
Less than 1	42 %
1	37
2-3	36
4-5	29
6	20
7-9	13
10-11	6
12	1
13-15	- 5
16-17	- 13

Source: Authors' Calculations.

payment income to low income households, Y represents economic growth, the subscript i refers to individual states, and u is a random error term.

For data, we have used the most obvious source of transfer payment income directly relating to children, Aid for Families with Dependent Children (AFDC). The average family payment levels for 1975, roughly the mid-point of the decade under consideration, are employed. To measure economic growth over the decade, we use the percentage change in per capita income levels.[7]

The results of estimating a multiple regression equation embodying the relationships shown in expression (3) are as follows:

$$(4) \qquad PC_i = 24.28 + \underset{(4.81)}{0.1267}\, A_i - \underset{(8.83)}{1.9905}\, Y_i, \quad \bar{R}^2 = .844$$

where the values in parentheses are t-statistics. Expression (4) is impressive in a statistical sense. Almost 85 percent of the variation among the states in the percentage change in the children's poverty rate is explained and both the hypothesized explanatory variables have regression coefficients that are highly significant in a statistical sense.

What is the import of this statistical evidence? The answer to that question is a somewhat depressing one. What is indicated here is that a major share of the burden of the rising incidence of the "new" structural poverty is borne by the children of those who voluntarily choose the poverty condition. Not by choice, but by chance, the offspring of those who have volunteered for the poverty condition have been thrust center stage into The War on Poverty. Perhaps more than anything else, they indicate the ultimate failure of that endeavor. In a sense, the generals who marshalled society's resources to fight poverty have condemned millions upon millions of children to a life of poverty. Exactly how many is difficult to determine but, if we had kept the poverty rate among children at its 1969 level, there would have been almost four-and-one-half million fewer children living in money income poverty conditions in 1983. These young people are the true casualties of The War on Poverty, a monument to the folly of social planning that ignores the behavioral responses of the individual members of society.

Unfortunately, there seems to be no end to such folly. Witness, in the 98th Congress, a piece of legislation entitled The Omnibus Anti-Poverty Act of 1984 was introduced. Among other things, it would have mandated minimum AFDC payments for the states that would have forced some 41 of them to raise their benefit levels by 1986. At the extreme, under this legislation, Mississippi would be forced to increase its AFDC benefits by a factor of more than four, compared to its 1984 maximum benefit levels for a family of three.[8] And Mississippi had one of the largest declines in poverty among children between 1969 and 1979. To be frank, if you deliberately set out to create a system that would ensure an increase in the rate of poverty among children, you could not do much better than this. This dimension of the Omnibus Anti-Poverty Act approaches being sheer madness. It ignores the available evidence and, worse yet, prescribes a massive increase in the very poison that has led to increasing impoverishment among America's children. Where will it end?

FOOTNOTES

1. See Lowell Gallaway, Richard Vedder, and Therese Foster, "The 'New' Structural Poverty: A Quantitative Analysis," elsewhere in this hearing record. For other works espousing this view, see Charles Murray, Losing Ground (New York: Basic Books, 1984) and Warren T. Brookes, The Economy in Mind (New York: Universe Books, 1982).

2. These data are taken from Table 2, Appendix H, Children in Poverty, Committee Print, Committee on Ways and Means, U. S. House of Representatives (Washington, D. C.: U. S. Government Printing Office, 1985), pp. 613-614.

3. United States Department of Agriculture, Agricultural Research Service, USDA Estimates of the Cost of Raising a Child, A Guide to Their Use and Interpretation, Miscellaneous Publication Number 1411 (Washington, D. C.: U. S. Government Printing Office, 1981), updated.

4. For a family of four, the 1983 upper income bracket to which what are called the "thrifty" and "low cost" budgets apply approaches $ 20,000, before taxes.

5. Table 6-4, Children in Poverty, op. cit., p. 182.

6. For the classic discussion of Robinsonian exploitation, see Joan Robinson, The Economics of Imperfect Competition (London: Macmillan, 1933), pp. 381-391.

7. The data source is U. S. Bureau of Economic Analysis, Survey of Current Business, various issues. Income is expressed in 1967 dollars, using the consumer price index as a deflator.

8. See Children in Poverty, op. cit., for data concerning the maximum benefit levels, by state, in 1984.

Senator Symms. Please proceed, Mr. Gottschalk.

STATEMENT OF PETER GOTTSCHALK, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN-MADISON, AND DEPARTMENT OF ECONOMICS, BOWDOIN COLLEGE

Mr. Gottschalk. Thank you for inviting me to testify on this important subject. Policy decisions are being made on the basis of factual evidence, factual evidence which I believe has been misinterpreted.

If I could, I would like to insert my prepared statement into the record.

Senator Symms. Yes. All of the prepared statements will be part of our record.

Mr. Gottschalk. Also, the Institute for Research on Poverty has just published an issue of Focus which gives a summary of a conference at Williamsburg on an evaluation of the antipoverty program. I would like to have that inserted in the record as well, since it deals specifically with this hearing.

Senator Symms. Without objection, so ordered.

How long is it?

Mr. Gottschalk. It is 26 pages.

Senator Symms. We will either put it in the record or the subcommittee files.

Mr. Gottschalk. Clearly the testimony of Mr. Gallaway outlines the major thrust of the criticisms on the war on poverty. There are really two parts to the criticisms.

The first is a factual statement. The factual statement is that poverty is worse when programs become larger.

The second is a causal statement, that the larger programs caused the increase in poverty.

Those are two separate arguments. I think it is important to separate them, as Mr. Murray has done.

In my testimony, I want to look at the factual evidence and I want to argue that it is partially right but misleading. I then want to look at the second question: Did the programs cause the poverty?

I take a much more neutral view than most people in this field. It seems to me that many programs worked and some didn't work. I think that statements that all programs are failures or all programs are successes are simply not consistent with the data.

Before I move to the specifics, let me just mention two commonly ignored facts about the war on poverty. The first is that the war on poverty's main aim was to make people self-sufficient. The idea was that transfers would be a necessary evil during the time in which you could help people overcome market disadvantages. That is very clear in the literature put out early in the war on poverty. There was no idea during the early years that growth would solve the problems or that transfers would solve the problems. The hope was that you could make people self-sufficient.

The goal of the people who designed the war on poverty continues to be the goal of those of us working in the field.

The second ignored fact is that the war on poverty, while large in some absolute sense, in any relative sense was small. The war on poverty never exceeded $10 billion per year.

So for people who want to either blame all of society's ills on this relatively small program or people who want to claim tremendous success, I think they are simply overlooking the fact that the war was fought with relatively small ammunition. You can't expect to have a large positive impact nor a tremendously negative impact with this committment.

Let me move to the details.

The first question is, did things get worse when progams increased?

If you will look at table 1 of my prepared statement—I will flip very quickly through these tables, because I don't want to take more than my allotted time.

If one looks at that table, you find that prior to 1969, pretransfer poverty declined. That is, people were earning more and hence their poverty rates were going down. During the same time, unemployment rates were going down. It seems to me that there is a fairly clear connection between the increased ability of people to earn income and the declining unemployment rates during that period.

During the same period, post-transfer poverty was declining. In other words, things were working well. People were earning more, their pretransfer poverty rates were going down, and their post-transfer poverty rates were going down.

After 1969, there is a change, an important change.

Pretransfer poverty started going up. In other words, people were earning less. The question is what caused this change. There is no doubt that the proportion of people who didn't have sufficient earnings to put them above the poverty line started going up after 1969.

Well, Mr. Murray, and now Mr. Gallaway, argue that it is the programs. I do not deny that the programs may have had some impact. I think it is irresponsible to argue that programs had absolutely no impact, because the sound economic analysis, which I will cover in a little while, shows that they do have negative impacts, and one shouldn't deny that.

However, what seems to be denied by the other side is that unemployment rates went up during that same period. We all know that after 1969, economic conditions, worsened. It shouldn't surprise us that pretransfer poverty rates start going up when unemployment increased. You will notice post-transfer poverty does continue to go down.

The story is straightforward· As the economy weakened, people couldn't earn as much, more of them fell into pretransfer poverty, and the Government stepped in and helped some of those people out of poverty.

Starting in 1979 post-transfer poverty also started going up, and if you look at the evidence from several other papers which we have written, you will find that transfer programs were being cut back during that period.

So, it is clear that transfer programs and unemployment both have an impact on poverty. To ignore macroeconomic conditions is just simply to ignore the elephant while focusing on the mouse.

The next argument leveled against the war on poverty is that it hurts blacks relative to whites. The problem with that argument is that it mixes together several different elements.

If you will look at table 2 of my prepared statement, it shows changes in proverty rates for six different groups, broken down by age of head, sex of head, race of head, and presence of children. What you find is that blacks do relatively better than whites in all six groups. In other words, the poverty rates among blacks go down relative to poverty rates among whites for every one of those six groups.

Now how can the overall poverty rates for blacks go up? The answer is that there were more female head of families who had above average poverty rates, and hence the mix of blacks, is more toward that group which has relatively high poverty rates.

Is the Government responsible for the change in female headship among blacks? I will review evidence in a little while which argues that there is very little evidence that the Government is responsible for those changes.

If you lock at the factual statements, things did not get worse for blacks. If you break it down by demographic groups, as I think you should, you should compare black nonaged males with the white nonaged males.

Were the programs a failure?

Here what I would like to do is just review three different programs to give you a range, because that is my argument, that you can't make the statement that everything works. That is what was said at the beginning of the war on poverty, and people were wrong. I wish they had been right; they were wrong. All programs don't work. Meanwhile, we now have a new view that says none of the programs worked. It seems to me that it is just as indefensible as the earlier statement.

The first programs were the programs for the elderly. I can refer you to table 3 of my prepared statement, but I think that everyone in this room knows that there was a massive increase in expenditures on the elderly between 1970 and 1980. There was a $70 billion increase in programs for those folks. The increase in the programs for the elderly was more than the total amount spent for the nonelderly, nondisabled in 1980. There was a massive growth in Social Security and SSI.

The result was that poverty rates for the elderly dropped from 24 percent to 15 percent in a 10-year period. You started with poverty rates that were twice the national average and they dropped in 1983 to below the national average.

It seems to me that this is a clear example that sometimes giving money in fact works. I think that we have a great success with the elderly. We designed programs and we brought their poverty rates down below the poverty rates of the nonelderly.

That is my success story.

It is harder to argue that we had an unambiguous success with AFDC and food stamps.

The first thing to realize is that while this has become the focus of the debate, it is a relatively small program compared to the other programs. People are sometimes surprised to find that AFDC and food stamps only comprises 7 percent of the total amount of cash transfers. While these are relatively small programs they get the attention of the public.

What are the facts? Remember that the claim is that increases in AFDC payments cause family breakups and cause folks to work less. Both of those tend to be true at the margin. There is some evidence that those two statements are true, not, as I will argue, massive evidence.

Table 4 of my prepared statement shows average benefits, female headship, unemployment rates for teens and overall unemployment rates. You just need to glance down the column to see that there is basically very little relationship, in fact, there is no statistical relationship between average benefits and the percentage of families which are headed by females or the unemployment rate of teenagers or the overall unemployment rate.

That should come as absolutely no surprise to anyone. Anyone who lived through that decade knows that macroeconomic conditions changed dramatically during that period.

Senator SYMMS. Could you pull your mike in just a little bit more?

Mr. GOTTSCHALK. Surely.

Senator SYMMS. Welcome to the hearing, Congressman Scheuer.

Mr. GOTTSCHALK. There were massive changes in the macroeconomy. One would be hard pressed to argue that it was transfer programs which caused structural changes like the oil shock.

And there was also the women's movement. There were social forces going along at that time which made it more likely that women would get divorced, that they might raise their own children. One should therefore not be surprised that those factors had an overwhelming impact that would, if anything, obscure any transfer impact.

If you are going to find any transfer impact, you have to go through very detailed studies, which have been done. First, there were the negative income tax experiments which got a lot of attention on the Hill. I did a very simple exercise. No fancy econometrics; it's just a simple average. I just took the increase in AFDC benefits during this period and took the labor supply estimates out of those studies. The literature is massive. I just took the final results. I said, all right, AFDC benefits went up. How much did the labor supply go down because of the increased AFDC? The answer is, for female head of families, 2 hours a week; for husband and wife families, 2½ hours a week.

Well, I'm not denying that there is a labor supply effect. There is—2 hours and 2½ hours.

My interpretation of those facts is that is not adequate reason to cut programs or eliminate programs, as has been suggested. There are modest decreases in the labor supply, but certainly not enough decrease in labor supply to cause any backward bending, new poverty curves. The micro evidence is just simply not consistent with that.

The second bit of micro evidence are studies by Bane and Elwood on living arrangements, which have now received a lot of attention. These find that when you look across States that the proportion of people who are getting divorced, the proportion of people who are having children out of wedlock is unrelated to the AFDC benefits.

I can refer you to that literature, but that is the bottom line.

Senator **Symms**. Could you summarize your statement, please.

Mr. **Gottschalk**. The remedial programs in my prepared statement show that those programs do not work terribly well. While we had hoped employment training and education programs might have a massive impact, it had a moderate impact, moderate to small impact. That's a disappointment.

In summary, the war on poverty was launched hoping we could make people self-sufficient. The fact that the remedial programs have not worked very well is a disappointment.

If the goal of the war on poverty was to reduce poverty, it has done so and has done so in spades, mostly, however, by increasing transfers. Transfers have been effective. While they have caused some side effects they have also reduced poverty.

Thank you.

Senator **Symms**. Thank you very much.

[The prepared statement of Mr. Gottschalk follows:]

PREPARED STATEMENT OF PETER GOTTSCHALK

The Successes and Limitations of the War on Poverty and the Great Society Programs

The optimistic vision of the early 1960s that a war against poverty could not only be waged but also won has now been challenged by a more pessimistic revisionist interpretation. Charles Murray summarizes this position succinctly:

> A government's social policy helps set the rules of the game. . . The first effect of the new rules [of the Great Society] was to make it profitable for the poor to behave in short term ways that were destructive in the long term. Their second effect was to mask these long term losses -- to subsidize irretrievable mistakes (Charles Murray "A Response to the Responses to Losing Ground" p. 2 mimeo 1985).

This view is only the latest put forward by a long line of critics of social welfare programs. For example, De Tocqueville's 1835 "Memoir on Pauperism," which is based on his analysis of the English welfare system, argued that ". . . any permanent, regular, administrative system whose aim will be to provide for the needs of the poor, will breed more miseries than it can cure, will deprave the population that it wants to help and comfort. . ." (reprinted in The Public Interest, 1983, pp. 118-119).

The attack on War on Poverty and Great Society initiatives has taken two very different forms. During the late 1970's Martin Anderson (Welfare, 1978), among others, argued that the increase in cash and in-kind transfer programs that resulted from these initiatives had virtually eliminated poverty, but had created serious disincentives to work and save. More recently Murray (Losing Ground, 1984) has argued that poverty and other adverse social indicators started to worsen in the late 1960s and that Great Society programs contributed to that deterioration.

This testimony draws heavily from Sheldon Danziger and Peter Gottschalk, "The Poverty of Losing Ground," Challenge Magazine, May/June 1985.

According to his view, the War on Poverty increased poverty by increasing disincentives and fostering a change in attitudes among the poor. The attempt to wage war on poverty was counterproductive.

In this testimony I argue that while policymakers may have been overly optimistic in the 1960s about the ability of society to eradicate poverty, the current pessimism is overstated as well. For a large proportion of the population, public programs have been an unqualified success--one need only look at the steady drop in poverty rates among the elderly to see that expanded expenditures for the poor (in the form of increased Social Security and Supplemental Security Income) can sometimes work. For other demographic groups, such as households headed by women, we have learned that some programs work but that their costs appear to exceed what society is willing to spend. Finally, for groups such as black youth, the problems seem to be more intractable than initially thought. A balanced interpretation of the lessons of the past two decades of antipoverty policy argues for building on what we have learned, not dismantling programs across the board.

BACKGROUND ON THE WAR ON POVERTY AND GREAT SOCIETY INITIATIVES

In evaluating the War on Poverty and Great Society programs, two important facts must be kept in mind. First, neither increased income transfers to the poor nor economic growth were thought of as the long-term solution to poverty. Programs aimed at helping individuals overcome their market disadvantages and improve their skills were the essential ingredient of the War on Poverty. Cash and in-kind assistance were considered necessary only for those who could not earn their way out of poverty and as a temporary means to aid those who could work. The need for these transfers was expected to diminish over time as the recipients' skills and opportunities improved. Likewise, economic growth by itself was not considered the solution to poverty, since the hard-core poor in the "backwash of society" were not assumed to benefit directly from growth.

Second, War on Poverty and Great Society programs other than cash and in-kind transfers were never very large. For example, targeted education, employment and training programs never exceeded $10 billion per year or 0.5 percent of GNP prior to 1970, and were never more than 1 percent of GNP thereafter. It is, therefore, difficult to argue that an effort of this size could have had a very large impact, either positive or negative, on poverty.

TRENDS IN POVERTY AND INCOME TRANSFERS

I now review the broad trends in poverty, income transfers and economic conditions to see whether the evidence is consistent with the revisionist view that progress against poverty was halted just as government was starting to do more. In the following section I examine the antipoverty impacts of changes in specific programs.

The pretransfer poverty rate is an indicator of the extent to which market forces leave some households in poverty. Column 1 of Table 1 shows that the proportion of persons who were pretransfer poor declined from 21.3 percent in 1965 to a low of 17.7 percent in 1969 and then increased to a high of 24.2 percent in 1983. This decline in the ability, or willingness, to obtain market income reflects primarily changes

Table 1

Poverty, Transfers and Unemployment

Year	Pretransfer Poverty Incidence (1)	Official (Posttransfer) Poverty Incidence (2)	Real Cash Transfers Per Household[a] (1972 dollars) (3)	Real In-Kind Transfers per Household[a] (1972 dollars) (4)	Unemployment Rate (5)
1950	n.a.	n.a.	$ 365	$ 29	5.3%
1955	n.a.	n.a.	460	31	4.4
1960	n.a.	20.2%	664	40	5.5
1961	n.a.	21.9	730	43	6.7
1962	n.a.	21.0	770	49	5.5
1963	n.a.	19.5	791	54	5.7
1964	n.a.	19.0	801	58	5.2
1965	21.3%	17.3	816	63	4.5
1966	n.a.	15.7	878	71	3.8
1967	19.4	14.3	891	150	3.8
1968	18.2	12.8	911	204	3.6
1969	17.7	12.1	958	231	3.5
1970	18.8	12.6	1,010	242	4.9
1971	19.6	12.5	1,150	273	5.9
1972	19.2	11.9	1,225	304	5.6
1973	19.0	11.1	1,272	320	4.9
1974	20.3	11.2	1,263	327	5.6
1975	22.0	12.3	1,395	386	8.5
1976	21.0	11.8	1,513	427	7.7
1977	21.0	11.6	1,508	452	7.1
1978	20.2	11.4	1,488	464	6.1
1979	20.5	11.7	1,419	472	5.8
1980	21.9	13.0	1,414	482	7.1
1981	23.1	14.0	1,458	505	7.6
1982	24.0	15.0	1,475	508	9.7
1983	24.2	15.2	1,543	n.a.	9.6

Sources: For pretransfer poverty, computations by authors from March Current Population Survey data tapes; for consumer price index, and unemployment rate, 1984 Economic Report of the President; for cash and in-kind transfers, "Social Welfare Expenditures under Public Programs in the U.S.," Social Security Bulletin, December 1968, December 1972, January 1971, January 1977, November 1981; for official poverty incidence and number of households, Current Population Reports, Series P-60, "Consumer Income."

[a] Transfers are divided by all households, not by recipient households.

n.a. = not available.

in labor demand. As unemployment (Column 5) dropped between 1965 and 1969, pretransfer poverty declined. Since then, unemployment and pretransfer poverty have trended upward. Throughout the 1970s, the poverty-increasing impact of rising unemployment was offset by rising transfers. When transfers stopped growing and unemployment continued to rise, the official poverty rate (Column 2) rose, reaching 15.2 percent by 1983, a level not attained since the late 1960s.

The disaggregated data in Table 2 refute assertions that spending growth did more harm than good for blacks. While poverty rates in each year for nonaged nonwhites with children are higher than for similar whites, the differentials have narrowed substantially--the rates declined for nonwhites, but increased for whites. In 1967, persons living with these nonwhite men were four times as likely to be poor as similar whites (Columns 4 and 5). By 1980, the ratio had fallen to two to one. Much of this decline is due to the more rapid increase in the market incomes of black men than white men, an increase that more than offsets the effect of blacks' relatively larger decline in labor force participation. The ratio of poverty rates of nonwhite women with children to that of similar white women (Columns 6 and 7) fell from 1.8 to 1.5 over the same period. This is certainly not evidence that poor blacks were disproportionately harmed as a result of Great Society programs.

The fact that nonwhites have become increasingly more likely to live in households headed by women with children than have whites means that aggregate black-white poverty comparisons obscure the advances shown in Table 2. For example, the ratio of poverty rates for all blacks to all

Table 2

Official Incidence of Posttransfer Poverty, for Persons Classified by Demographic Group of Household Head

		Aged:		Nonaged:			
	All Persons (1)	Whites (2)	Nonwhites (3)	White Men with Children (4)	Nonwhite Men with Children (5)	White Women with Children (6)	Nonwhite Women with Children (7)
1967	14.3%	27.0%	52.0%	7.5%	28.4%	38.2%	68.5%
1980	13.0	13.2	35.7	7.8	16.9	39.1	58.3
% Change							
1967-1980	-9.1	-51.1	-31.3	+4.0	-40.5	+2.4	-14.9

Source: Computations by the authors from March Current Population Survey data tapes.

whites (data not shown) has remained relatively constant. The conclusion that government programs did little for blacks follows only if a substantial portion of the increased percentage of families headed by women was caused by increased government transfers, a result rejected by the literature reviewed below.

WHAT WERE THE SUCCESSES AND LIMITATIONS?

The history of the War on Poverty and Great Society is a history of overstatement--there is now wide agreement that the stated goals were not universally met. The vision that compensatory programs could eliminate market disadvantages for most groups was unrealistic. As a result, achievements fell short of expectations and disillusionment set in. The overstatement that "everything would work" was replaced with equally unrealistic assertions that "nothing works." In this section, I review three sets of programs which illustrate the varying degree of success in antipoverty programs.

Aid for the Elderly. Table 3 shows that between 1970 and 1980 real expenditures on programs for the elderly increased by about $70 billion. This *increase* in expenditures exceeds the *sum total* of all expenditures in 1980 on the non-elderly non-disabled population. No serious critic of the War on Poverty and Great Society would deny that these increases in expenditures, which primarily reflect increased social security benefits, expansion in Medicare-Medicaid, and the introduction of an income-tested welfare program for the elderly (Supplemental Security Income) were major

Table 3

Costs of Major Income Transfer Programs for the Elderly, Totally Disabled and All Others

	1960	1970	1980
	(Billions of 1980 $)		
Programs for the Elderly			
Medicare - Medicaid	$ 0.0	$ 21.1	$ 37.8
All Other Programs	45.3	94.6	148.7
Programs for the Totally Disabled			
Medicare - Medicaid	0.0	2.2	11.5
All Other Programs	2.3	9.6	20.9
Programs for All Other Persons			
AFDC and Food Stamps	2.8	11.9	21.1
Medicaid	0.0	4.7	6.7
All Other Programs	17.5	19.7	41.1
Total	$ 67.9	$ 163.8	$ 287.8
Share of Total Spending			
Medicare - Medicaid	.000	.171	.195
Other Programs for the Elderly	.667	.578	.517
Other Programs for the Totally Disabled	.034	.059	.073
AFDC and Food Stamps received by non-aged, non-disabled	.041	.073	.073
Other Programs for Non-Aged, Non-Disabled	.258	.120	.143
	1.000	1.000	1.000

Source: David Ellwood and Lawrence Summers, "Poverty in America: Is Welfare the Answer or the Problem?" Institute for Research on Poverty, Williamsburg Conference Paper, December 1984.

factors in explaining the decline in poverty among the elderly.[1] Societal decisions to make intergenerational transfers were a powerful influence in bringing poverty rates for the elderly from 24.5 percent in 1970 to 15.7 percent in 1980. The probability of an elderly person being poor fell from about twice the national average in 1970 to less than the average in 1983. The evidence is overwhelming that programs for the elderly offer a true success story for the War on Poverty and Great Society initiatives.

AFDC and Food Stamps. Table 3 also shows that AFDC and Food Stamps were never very large programs in comparison to programs for the elderly, making up only 7.3 percent of income transfer programs in 1980. While these programs were not large, they became the center of the debate over the effectiveness of antipoverty efforts.

Do these programs account for the increased family breakup and economic stagnation in the 1970s? Column 1 of Table 4 shows a large increase in the real values of the combined AFDC and Food Stamp guarantee between 1960 and 1972. This rise provides the basis for the increased negative family and work effects attributed to social programs. However, the real guarantee declined just as rapidly during the 1970s, falling below $7,000 by 1984, and implying reduced disincentives. Yet there have been no reversals in the trends of either family composition or work effort.

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[1] While future generations may save less and buy less private insurance because of the institution of these public programs, thus reducing their antipoverty effectiveness, the beneficiaries of these early increases could hardly have foreseen these increased benefits. Thus even if private decisions partially offset public decisions, early recipients would not have had time to adjust.

Table 4

Welfare, Female Headship and Unemployment

Year	Real AFDC Plus Food Stamp Guarantee (1)	Percentage of Nonaged Families with Children Headed by Women (2)	Unemployment Rate, Civilian Workers	
			Nonwhite Men, 18-19 Years (3)	All Men (4)
1960	$6715	n.a.	25.1 %	5.4 %
1964	6604	n.a.	23.1	4.6
1968	7129	10.7 %	19.0	2.9
1972	8894	13.8	26.3	5.0
1976	8743	16.7	33.8	7.1
1980	7486	19.8	32.6	6.9
1984	6955	20.8[a]	n.a.	7.4

Sources:

Column (1): Weighted average of states' AFDC and Food Stamp benefit level for a family of four with no income (in 1984 dollars) from Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, February 22, 1985, p. 532.

Column (2): Computations by authors from March Current Population Survey data tapes.

Column (3): Employment and Training Report of the President, 1982, p. 196.

Column (4): Economic Report of the President, 1985, p. 271.

[a] For 1983; 1984 data not yet available.

n.a. = not available

Consider all households with children headed by a person under 65 years of age. The percentage of these households headed by women increased steadily from 10.7 to 20.8 percent between 1968 and 1983 (Column 2). As David Ellwood and Mary Jo Bane conclude, using alternative data ("The Impact of AFDC on Family Structure and Living Arrangements," Harvard University, mimeo, 1984), "welfare simply does not appear to be the underlying cause of the dramatic changes in family structure of the past few decades."

Likewise, neither unemployment rates for young black men nor for all men (Columns 3 and 4) correlate with welfare benefit levels. Between 1960 and 1968, when benefits were rising, unemployment was falling; between 1972 and 1980, when benefits were falling, rates were rising. Only the 1968 to 1972 period, in which both benefits and unemployment rates rose, fits the view that antipoverty efforts increased unemployment. This is not to deny that transfers may reduce willingness to work, but only to argue that these disincentives have been, at best, of secondary importance. Deteriorating macroeconomic conditions, not increased transfers, were the major causes of changes in employment of the poor.

While the time series we have reviewed are suggestive, they do not resolve the debate about the relative importance of poor economic performance or the disincentive effects of transfers in explaining the trend in poverty. There is, however, an extensive microeconomic literature that shows that the magnitudes of the labor supply and family structure effects of transfers are much smaller than those required to confirm the thesis of the poverty-increasing effects of social programs.

Robert Moffitt ("The Negative Income Tax: Would it Discourage Work?," Monthly Labor Review, 1981) summarizes the experimental income maintenance studies. His results imply that a $20 per week increase in the income guarantee (in 1984 dollars) will lead a female family head to work 1.1 fewer hours per week. This implies that the $2,179 annual increase in AFDC and Food Stamps between 1960 and 1972 (shown in Table 4) would have decreased weekly work effort by 2.2 hours. Conversely, the $1,939 decrease in annual guarantee between 1972 and 1984 would have produced a 2.0 hour increase. Neither of these figures are sufficiently large to explain very much of the change in market incomes of the poor.

That the work effort of women heading households is not very sensitive to changes in welfare program parameters has been confirmed by the recent experience with the AFDC rule changes enacted under the Omnibus Budget Reconciliation Act of 1981 (OBRA). While many economists expected that the increase in the marginal benefit reduction rate in AFDC to 100 percent would lead to large reductions in labor supply, numerous studies found this not to be the case (see Robert Hutchens, "The Effects of OBRA on AFDC Recipients: A Review," Institute for Research on Poverty Discussion Paper #764). Working recipients did not stop working and nonworking recipients did not reduce their rate of entrance into the labor force. Recipients continued to work, either to gain useful skills or to signal future employers that they were employable.

What about male-headed families? AFDC-U covers unemployed fathers with children in about half of the states, but accounts only for 8.3 percent of the caseload. Applying Moffitt's labor supply estimates for husband-wife families to the 1960-1972 growth in benefits yields a combined reduction in hours worked by husbands and wives of only 2.5 hours per week. Likewise, single men, who are eligible only for Food Stamps, would have reduced their labor supply by small amounts because of the increased Food Stamp guarantee. None of these estimated responses supports the position that transfers fail to reduce poverty.

Holding family composition constant, then, it is clear that the growth in income transfers has substantially reduced poverty. But how much of the increased percentage of households with children headed by women can be attributed to welfare? Ellwood and Bane use a variety of cross-section and time-series comparisons and find only small effects on birth rates to unmarried women and divorce and separation patterns among families with children. They do find that AFDC has a large effect on the probability that young single mothers live independently rather than with parents or other relatives. This negative consequence of welfare can be remedied by changing the rules so that minors not living with their parents are ineligible for AFDC. Such a change has been proposed by the Reagan administration. However, even if the proportion of persons living in households headed by single women with children had remained constant at the 1967 level, poverty in 1980 would have been lower by only about 0.6 percentage point (12.4 instead of 13.0 percent of all persons). Such an effect is again not quantitatively large.

In summary, the AFDC and Food Stamp programs must be viewed as qualified successes. On the positive side, they acheived their primary mission of providing income assistance to families in need. On the negative side, they did have disincentive effects, even if these have been grossly overstated by critics. However, more important, the hope that these programs could wither away as the poor gained skills and achieved self-sufficiency has not been met.

Remedial Programs. To admit that not all programs worked is not to agree that none were successful. What we have learned from the last twenty years of evaluations of antipoverty policies is that some groups are easier to help than others.

In a recent conference on the War on Poverty and Great Society initiatives, researchers identified both successes and failures.[2] Medicare and Medicaid received high marks for increasing access to medical care for low-income persons. Without this improved access, fewer low-income people would have benefited from recent technological improvements in medicine. While a substantial proportion of the poverty population still lacks insurance coverage, those covered now have the means to overcome disadvantages associated with ill health.

Considerable faith was earlier placed in the ability of employment and training programs to overcome market disadvantages of low-income people. Here, however, the evidence is mixed. If the criterion for success is that programs raise future earnings of participants, then these programs are only qualified successes. While most programs (such as Supported Work and CETA) which served low-income women and some programs (such as the Job Corps) which served disadvantaged youth had a positive impact on future earnings, few labor market strategies increased the earnings of working-aged men.

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[2] This section relies heavily on Sheldon Danziger and Daniel Weinberg, The War on Poverty: Taking Stock of What Worked and What Did Not--Editors' Introduction (Harvard University Press, forthcoming).

While several programs had benefits which exceeded costs, these tended to be the more intensive strategies which had high program costs (about $10,000 per participant). The primary impact of these programs was to increase future earnings through increased hours worked rather than through higher wages. Thus, if society is willing to make a substantial commitment to raising the earnings capacity of low-income people, the investment can be profitable for some, but not all, groups.

This qualified picture is partially the result of expectations that public programs will raise future earnings. It should be noted that a similar criterion is not applied to private sector employment. A welfare recipient taking a "dead end" job is still considered successful, since placement in the private sector is defined as a success, even if it does not lead to future wage gains. If a similar criterion were applied to the public sector, then all public sector employment (PSE) programs would by definition be successes. The standard rationale for this asymmetry is that work in the private sector is assumed to lead to the production of goods which have "passed the market test." While this argument has merit, it makes the untested assumption that public goods produced under PSE have little or no value.

Early enthusiasm for educational programs which could "break the cycle of poverty" has had to be tempered. While the Head Start evaluations do show some long-term effects, they are not large. At best, preschool and elementary school programs have had small lasting effects. The evidence does not sustain the hope that improved education can serve as the major pillar of antipoverty policy.

SUMMARY

An objective evaluation of the War on Poverty and Great Society would describe them neither as a total success nor a failure Analysts underestimated the difficulty of bringing everyone into the mainstream of society, and the cures did cause some adverse consequences. The fact remains, however, that antipoverty policies, especially cash and in-kind transfer programs, have significantly reduced poverty. And some employment and training programs have helped some low-income people overcome labor market disadvantages.

With twenty years of experience behind us, we are in a considerably better position today to set realistic antipoverty goals and to design programs to achieve those goals. The fact that not every program worked as expected should not be used as an excuse for not building on those programs which have worked. A worthy goal of the War on Poverty was to eliminate much of the need for transfer programs. That goal, which can be embraced by liberals and conservatives alike, seems as valid today as twenty years ago.

Senator **Symms**. Mr. Greenstein, we have a little confusion here between the first two witnesses. Now maybe you can clarify it.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. **Greenstein**. Or add to it, as the case may be.

Senator **Symms**. Pull that mike in, if you would, please. I can't quite hear you. The acoustics in this room are very poor, at least from this end of it.

Mr. **Greenstein**. Mr. Chairman, the topic of the hearing asked whether the Federal antipoverty efforts represented a victory or defeat.

Senator **Symms**. We can't hear you up here. Pull that mike right up there and speak into it real loud, if you would, please.

Mr. **Greenstein**. The topic of this hearing asks whether the Federal antipoverty efforts represented a victory or defeat. Clearly widespread poverty is still with us. So in that sense victory clearly has not been achieved.

But neither can the Federal antipoverty efforts be classified as a defeat. Among the elderly, the reduction in poverty has been dramatic, cut more than in half. There have been striking gains in areas such as health care and nutrition for the poor. In the absence of the Federal poverty programs, the numbers of poor would be larger today and their living conditions would be more bleak. In short, programs providing cash assistance, food aid and health care to the poor have, in many cases, been successful and in some cases remarkably successful.

To be sure, poverty stopped declining sometime in the 1970's and has risen in recent years. The predominant cause for this lies not in the poverty programs, however, but in the relatively poor performance of the economy for over a decade, aggravated by steep declines in real benefits provided to the nonelderly poor since 1970 due to States failing to keep AFDC even benefits with inflation and, to a lesser degree, the Federal budget cuts enacted since 1981.

In fact, given the rise in inflation and then the high unemployment over the past decade, we can say that the numbers of persons in poverty, the degree to which they fall below the poverty line, and their health, housing and nutritional status would all be significantly worse in the absence of Federal antipoverty programs.

This is not to say, of course, that every program has worked. Clearly some have and some have not. For example, as a Nation we made less of an effort, and those efforts that we made were less successful, in finding ways to move more of the employable poor into jobs. We have found it is extremely difficult to design effective employment and training strategies at a time when the economy is failing to generate enough jobs to bring unemployment down from high levels. We have learned that unemployment and training strategies that themselves do nothing to expand the number of jobs in the economy are not likely to yield very significant results.

In the future, as we look to antipoverty policy, we have to focus on ways to create more jobs in the economy for those in the underclass.

Let me comment on a few of these items in more detail in terms of some of the positive benefits of programs.

In the area of health care, for example, the infant mortality rate changed little in the decade before 1965. Then from 1965 to 1980, the period in which Medicaid and other health care programs were instituted, infant mortality was cut in half, with especially large declines among blacks.

Similarly, the mortality rate for men over 65 rose a bit in the decade before Medicare. In the decade from 1968 to 1978, this trend was dramatically reversed. By 1980 life expectancy at birth had grown 4 years and mortality rates, adjusted for age, had fallen 20 percent. Very striking achievements.

While Medicare and Medicaid were not the only factors involved, to be sure, they clearly played an important role.

The food assistance area is another positive story. Agriculture Department surveys document that the gap in nutrition between low-income Americans and the rest of the society narrowed significantly from the mid-1960's to the late 1970's, the period when food stamps and other food programs were developed and expanded.

Other research, also sponsored by USDA, has found that food stamp recipients have better diets than similar low-income families not on stamps, that school lunches improve the nutrition of children, and that the WIC program results in a marked reduction in the incidence of low birth weight, the leading cause of infant mortality and poor health among children.

Turning to the cash assistance area, the value here can also be seen in the simple fact that when cash assistance to the poor has been expanded, declines in poverty have generally resulted. Conversely, when benefit levels have been reduced, progress in reducing poverty has stalled.

As Peter Gottschalk has noted, in the 1960's and 1970's when Social Security was expanded and SSI was created, the elderly poverty rate plummeted from 35 percent in 1959 to about 14 percent today.

This phenomenon is not limited to the elderly, as some would argue. In the 1960's, when AFDC benefits rose in real terms, poverty among single-parent families dropped. After 1969, real AFDC benefits fell sharply. During this period, poverty among families stopped declining.

Since 1970, AFDC benefits have fallen 37 percent in real terms. Adding food stamps, it is still about a 25-percent decline.

A recent analysis by the Congressional Research Service has found that in most States AFDC and food stamp benefits, adjusted for inflation, are at or only slightly above the levels for AFDC alone all the way back to 1960, before food stamps was even created.

To the degree that changes in public assistance programs have contributed to increases in poverty among children, it is because these benefits have been reduced so much, not because the programs have been made more generous.

I suggest that the trends are rather clear here: Poverty among the elderly dropped as benefits increased; poverty among families with children dropped when benefits were increased in 1960's; in the 1970's and 1980's AFDC benefits started falling, the economy turned sour, and poverty rates for families with children stopped declining.

Cash assistance for the poor does reduce poverty.

I would also like to turn to the arguments that are made, such as those of Mr. Gallaway and Mr. Murray, that these programs actually move poverty in the wrong direction.

One of the principal arguments here is the claim that since the poverty rate is only about the same level in 1980 as it was in the late 1960's, since it stopped declining in the early 1970's, and since social program expenditures were growing during this period, this illustrates that the programs have been a failure.

I think, as Peter Gottschalk has indicated, the most significant fact omitted from the analyses of the critics is the very fundamental point that the unemployment rate in 1980 was double what it was in 1968. When unemployment goes up, poverty rises along with it. It couldn't be more basic.

It should be no surprise that the official poverty rate wasn't lower in 1980 when the unemployment rate was about 7 percent than in 1968 when the unemployment rate was 3.6 percent. The fact that the official poverty rate wasn't higher in 1980 than in 1968, despite the doubling of the unemployment rate, actually provides evidence that these programs were working and helping people who otherwise would have been impoverished by the sluggish economy.

Other data analyzed by the Urban Institute show that the broader programs as of 1980 were lifting far more of those who otherwise would have been poor out of poverty than had been the case in the 1960's. In short, during this period the slowing of the economy dropped people into poverty while the broadening of benefit programs lifted them out. The two trends roughly balanced each other out and the official poverty rate stayed the same.

Let me take this one step further.

If you look at real wages, they rose steadily in the 1950's and 1960's; they stopped growing around 1973, right around the point that Charles Murray notes that poverty among families stopped declining. Productivity, which had also been growng rapidly, started stagnating around the same period. Real median income stopped rising as well.

There is one really important point I would like to underscore here, probably the most important correlation regarding poverty. It is the correlation between real wages and real median income on the one hand and the poverty rate on the other.

Virtually every year that real wages and real median income have fallen and unemployment has risen, the poverty rate has increased. The poverty rate and the economy have moved in close tandem for a quarter of a century. Critics of the poverty programs too often fail to acknowledge this rather basic relationship.

In a recent piece of work by David Ellwood of Harvard University, Ellwood notes that if the thesis advanced by Gallaway and Murray that the changes in the poverty programs changed behaviors which resulted in increases in poverty were the case, it ought to show up in some alteration of the basic up-and-down relationship between the economy, between wages and median income and poverty rates during the period of the late 1960's and early 1970's. As Ellwood shows, no change in the relationship shows up at all.

Ellwood makes a further point, which I think is devastating. He looks at the earnings of white males who worked all year. They had no unemployment; they are not influenced by the influx of women into the labor market; they are not influenced to work less by changes in family structure given the fact that they are working full time. What he finds is that real wages for these favored white workers, white males working full time all year, in real terms started declining, stopped growing, in 1969.

That is something that accords with the economic trends; it accords with the poverty trends. It can't be explained by the behavior explanations. The relationship between economy and poverty holds steady throughout the whole period.

Moreover, two recent important pieces of research convincingly demonstrate that when the economy turns down, low-income groups and especially black males are not only affected the most, but are affected more adversely than we had previously recognized.

Far from being irrelevant, the economy is the prinicipal reason that the poverty rate failed to drop since the early 1970's. Only government benefit programs prevented it from rising further still.

Charles Murray makes the point that if you look at what he calls the latent poverty rate, where poverty would have been before Government transfers, it was higher in 1980 than in 1968. He adduces from this that this shows a negative impact as a result of less self-reliance, less work effort by people who could rely on Government programs.

In fact, however, the latent poverty rate, by virtue of the fact that it is based on income before and other than Government benefits, largely represents fluctuations in earnings. As a result, when earnings stagnate and unemployment climbs the latent poverty rate goes up. The increase in latent poverty tells us nothing other than that in 1980 the economy was weaker than in 1968 and produced fewer jobs and less income. The latent poverty rate increase is consistent with the fact that real earnings stopped growing for white male workers, a group that had no relationship to the welfare system.

Finally, in a recent article Christopher Jencks of Northwestern notes that the official poverty rate is not the best standard here and that if you adjust the poverty rate to count noncash benefits and measure inflation more accurately, it fell about 40 percent from 1965 to 1980 even though unemployment went up during this period.

Jencks' conclusion is, "Legislators should look back on their efforts to improve the material conditions of poor people's lives with some pride."

On the work incentive effort we can look at the fact that from 1970 to 1980 welfare benefits fell sharply in real terms while Congress enacted the earned income tax credit for the working poor. The result is that during this period incentives to work versus incentives to be on welfare increased dramatically. During this period people got increasingly better off if they worked rather than going on welfare, and by 1980 in nearly all States in the country the advantages of working at a minimum wage job vastly outstripped those of going on welfare.

If the thesis is correct that the earlier increases in welfare benefits or the availability of welfare benefits generally retard work effort to a large degree rather than to the minor degree that Peter Gottschalk mentioned, then we should have seen a reversal of the trends in the 1970's. If that thesis is right, then we should have seen black and youth unemployment declining in the 1970's, female head of household formation dropping. It didn't occur; the number of female head of households continued to grow, black unemployment declined further.

This really shouldn't be surprising, because it isn't benefit programs that were causing this problem.

As Peter Gottschalk mentioned, the landmark study by Ellwood and Bane at Harvard has found that welfare does not increase illegitimacy, and Ellwood in some further work has noted—I think this is of particular importance—that from 1972 to 1980 the number of children in black female-headed households rose nearly 20 percent, while the number of black children on AFDC fell by 5 percent.

Senator SYMMS. Are you about where you can wrap it up?

Mr. GREENSTEIN. Yes.

If AFDA is to blame for illegitimacy, why did the black AFDC population decline at the same time that black female-headed households were increasing rapidly?

I have a section here, which I will pass over, on the declining labor force participation during this period. But, again, a close examination of the evidence shows, I think, that the availability of welfare is not the story, that there were other factors going on, and in particular, reductions in labor force participation by young males cannot be linked to this, both because the welfare benefits had stopped growing by the 1970's and for the much more basic reason that men who are not elderly or disabled are not eligible for much in welfare in most areas to begin with.

The final point that I would make regards the points that Mr. Gallaway made about cash transfer increasing rather than reducing poverty. He noted that the relationship on this is something akin to the Laffer curve. I would only say, Mr. Chairman, that I would think the analogy couldn't be more apt. This relationship has about as much to do with explaining what is going on in poverty as the Laffer curve has to do with explaining what has happened with tax revenues in the last few years.

There have been many studies on this issue. For example, there are studies by the Congressional Research Service, the Urban Institute, Peter Gottschalk, and Sheldon Danzinger that show a direct relationship between the reductions in Federal benefit programs since 1981 and increases in poverty. These studies come from scholars who have no ideological ax to grind and the relationship is there, that as you cut these programs and reduce benefits you don't reduce poverty, you increase poverty, particularly among children, and you make the situation of poverty facing poor families with children in this country even more severe than it already is.

I would say the bottom line is, as the Congressional Research Service has recently noted, that the benefits for families in AFDC have fallen 37 percent in real terms since 1970. If we continue to allow that to go on for another 15 years in this society, what we are going to have is not less poverty, but more poverty among children than we have had in decades.

Thank you.

Senator SYMMS. Thank you very much, Mr. Greenstein.

[The prepared statement of Mr. Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN

Mr. Chairman, I am pleased to have this opportunity to appear before the Committee today. I am Robert Greenstein, director of the Center on Budget and Policy Priorities here in Washington, D.C. The Center is a non-profit research and analysis organization that focuses on federal programs and policies affecting low income persons.

The topic of this hearing asks whether the War on Poverty was a victory or a defeat. Clearly, there is still widespread poverty in the U.S., so that victory -- in the sense of eradication or massive diminution of poverty -- has not been achieved.

But neither can the War on Poverty be classified as a defeat. Among the elderly, the reduction of poverty has been dramatic, with the poverty rate being cut by more than half. There have been striking gains in areas such as health care and nutrition for the poor. In the absence of the poverty programs, the numbers of the poor would be larger today and their living conditions would be more bleak. In short, programs providing cash assistance, food aid, and health care to the poor have, in many cases, been successful -- and in some cases, remarkably successful.

To be sure, poverty stopped declining sometime in the 1970's and has risen in recent years. The predominant cause of this development lies not in the poverty programs, however, but in the relatively poor performance of the economy for over a decade, aggravated by steep declines in real benefits provided to the non-elderly poor since 1970 (mostly due to state action in failing to keep AFDC benefits even with inflation) and the federal budget cuts since 1981. Given the rise in both inflation and unemployment levels over the past decade, we can say that the numbers of persons in poverty, the degree to which they fall below the poverty line, and their health, housing, and nutritional status would all be significantly worse in the absence of federal anti-poverty programs.

This is not to say that every program has worked. As a nation, we made less of an effort -- and those efforts that were made were less successful -- in finding ways to move more of the employable poor into jobs. We have found that it is extremely difficult to design effective employment and training strategies at a time when the economy is failing to generate enough jobs to bring unemployment down from high levels. One thing we have learned is that employment and training strategies that do nothing to expand the number of low wage jobs in the economy are not likely to yield very significant results.

As we look to anti-poverty policy in the future, we must therefore look for ways to create more jobs in the economy for those in the "underclass" -- and to move long-term unemployed, chronically poor persons into those jobs.

Having given this overview, I would like now to explore these issues in more detail. First, I would like to explore the track record of various poverty programs.

Health Care

The progress made in improving health care for low income persons illustrates that the poverty rate, as measured in terms of cash income, is not the sole measure of well-being among the poor. In the decade before 1965, for example, the infant mortality rate changed little. Then from 1965 to 1980, the period in which Medicaid and other health care programs were instituted, infant mortality was cut in half. There were especially large declines in infant mortality among blacks.

Similarly, the mortality rate for men over 65 rose a bit in the decade before Medicare was instituted. But in the decade from 1968 to 1978, this trend was reversed. Life expectancy for Americans began to improve significantly around 1968. By 1980, average life expectancy at birth had grown four years, while mortality rates, adjusted for age, had fallen 20 percent.

These must be recognized as striking achievements, and while Medicare and Medicaid surely were not the only factors involved, they clearly played an important role. By virtually every measure, prenatal and geriatric care for the poor improved markedly when these programs were introduced.

Evaluations show very positive results for other health programs as well, such as the community health centers program. This program improves the health of low income communities, reducing hospitalization rates and Medicaid costs.

Nutrition Progams

Food assistance programs for the poor are another area in which poverty programs have had important results. Department of Agriculture surveys document that the gap in nutrition between low income Americans and the rest of the society narrowed significantly from the mid-1960's to the late 1970's, the period during which food stamps and other food assistance programs were developed and expanded. Other research has found that food stamp recipients have better diets than similar low income families not on food stamps, that school lunches improve the nutrition of schoolchildren, and that the Special Supplemental Food Program for Women, Infants, and Children (the WIC program) results in a marked reduction in the incidence of low birth weight, which is the leading cause of infant mortality and a major cause of poor health among children.

Cash Assistance

The value of cash benefits can be seen in the fact that when cash assistance to the poor has been expanded, declines in poverty have generally resulted. Conversely, when benefit levels have been reduced, progress in reducing poverty has stalled.

The elderly are a vivid example. In the 1960's and 1970's, Social Security benefits expanded and the Supplemental Security Income (SSI) program for the aged and disabled poor was created. Largely as a result, the elderly poverty rate plummeted from 35% in 1959 to 25% in 1970 and to less than 16% in 1980.

This phenomenon is not limited to the elderly. In the 1960's, when AFDC benefits rose in real (inflation-adjusted) terms, poverty among single-parent families dropped. After 1969, real AFDC benefits fell sharply, as states failed to keep benefits even with inflation. During this period, poverty among families stopped declining.

Since 1970, AFDC benefits have fallen 37% in real terms. If food stamps are added in, the real decline is still about 25%. Even more striking, a recent analysis by the Congressional Research Service has found that in most states, real AFDC and food stamp benefits combined are at or only slightly above levels for AFDC alone back in 1960, before the food stamp program was even created. To the degree that changes in public assistance programs have contributed to increases in poverty among children, it is because the benefits in these programs have been reduced so much, not because the programs have been made more generous.

The trends thus are clear: Poverty among the elderly dropped as benefits increased. Poverty among families with children dropped, as well, in the 1960's, when benefits increased for them, also. In the 1970's and 1980's, the poverty rate for families with children stopped declining as real AFDC benefits started falling (and as the economy turned sour). The evidence demonstrates that expanded cash assistance programs for the poor do reduce poverty.

Before leaving this overview of the positive aspects of anti-poverty programs, I do want to take note that other programs, such as Headstart, have also been shown to be have positive results. The evaluations of Headstart show desirable outcomes in a number of areas, including increased employment and reduced welfare in subsequent years for Headstart children.

The Attacks on the Poverty Programs

It is ironic that at the very time that much evidence of positive achievements from these programs is becoming available, the major focus of public attention has turned to sharp new attacks on the whole concept of providing assistance to the non-elderly poor. This attack centers on several basic arguments: that poverty rates failed to drop while social spending increased, and that the programs must therefore have failed; and that public assistance decreases work effort and fosters illegitimacy. I believe that the evidence does not support these charges. I would like to briefly address each of these issues.

1. Poverty failed to drop, so the programs must have failed

An argument that seems to be repeated fairly frequently these days is that despite significant increases in social program spending, the poverty rate did not drop from 1968 to 1980, but instead remained at about the same level. According to proponents of this school of thought (such as Charles Murray, author of Losing Ground), if the programs were successful, the poverty rate should have declined.

This sounds attractive on the surface. But it turns out to rest on a superficial and flawed analysis that fails to take basic changes in the economy (and in benefit programs) into account.

Perhaps the most significant fact omitted from the analyses of those who subscribe to this point of view is the fundamental point that the unemployment rate in 1980 was double what it was in 1968. When unemployment goes up, poverty rises along with it. It should be no surprise that the official poverty rate wasn't lower in 1980 when unemployment exceeded 7%, than in 1968 when unemployment was just 3.6%.

Indeed, the fact that the official poverty rate had not climbed higher in 1980 than it had been in 1968, despite the doubling of the unemployment rate, actually provides strong evidence that these programs were working -- and were helping people who would otherwise have been impoverished by the sluggish economy.

Further evidence comes from the Urban Institute, which found that in 1965, before the poverty programs were expanded, federal benefit programs lifted out of poverty less than half of those who would otherwise have been poor. By the late 1970's, the programs had been broadened -- and were lifting about 70% out of poverty.

In effect, from 1968 to 1980, the slowing of the economy dropped people into poverty and the broadening of benefit programs lifted them out. The two trends roughly balanced each other, and the official poverty rate remained about the same.

In Losing Ground, Charles Murray argues that the economic downturn had nothing to do with the failure of poverty to drop in the 1970's. He states that economic growth, as measured by growth in the GNP, rose more in the 1970's than in the 1950's, when poverty did decline. This is supposed to prove that it was not the economy that kept poverty rates high in the 1970's. The trouble with this argument, however, is that GNP growth is not the relevant issue. Growth in the GNP does create jobs, but this growth was too slow in the 1970's to create enough jobs for the unusually large numbers of women and young people (from the baby-boom generation) who were entering the job market. As a result, unemployment rose.

In addition, real wages, which had been rising steadily in the 1950's and 1960's, stopped growing in the 1970's. At the same time, productivity, which also had been growing rapidly, stagnated. Real median income stopped rising, as well.

Now there is a direct correlation -- probably the most important correlation regarding poverty rates -- between real wages (and real median income) and the U.S. poverty rate. In virtually every year that real wages and real median income have fallen and that unemployment has risen, the poverty rate has increased. The poverty rate and the economy have moved in close tandem for a quarter century. Critics of the poverty program too often fail to acknowledge this basic relationship.

Moreover, two important pieces of recent research* convincingly demonstrate that when the economy turns down, low income groups -- and especially black males -- are affected the most (and affected even more adversely than had previously been recognized). Far from being irrelevant, the economy has been the principal reason that the official poverty rate has failed to drop since the early 1970's. Only government benefit programs prevented poverty from rising further still.

Finally, if one examines not the official poverty rate, but rather an adjusted poverty rate that counts non-cash benefits and that measures inflation more accurately, then even the claim that poverty was as high in 1980 as it was in the late 1960's falls apart. Christopher Jencks of Northwestern University has explored this issue in a recent article.** Jencks finds that when the appropriate adjustments are made to the poverty rate so that poverty trends over time can be more accurately measured, the poverty rate in 1980 turns out to be significantly lower than it was in the late 1960's (and nearly half of what it was in 1965), even though unemployment was so much higher in 1980. "Legislators should look back on their efforts to improve the material conditions of poor people's lives with some pride," Professor Jencks concludes.

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*Edward M. Gramlich and Deborah S. Laren, "How Widespread Are Income Losses in a Recession?" in D. Lee Bawden, ed., The Social Contract Revisited, The Urban Institute; Rebecca M. Blank and Alan S. Blinder, "Macroeconomics, Income Distribution and Poverty," paper presented to conference on poverty policy sponsored by the Institute for Research on Poverty and U.S. Department of Health and Human Services, Williamsburg, Virginia, December 1984.

**Christopher Jencks, "How Poor Are the Poor?", New York Review of Books, May 9, 1985. Jenck's adjusted measure of poverty adjusts for non-cash benefits and underreporting of income, and uses the Personal Consumption Expenditure (PCE) deflator from the National Income Accounts (rather than the Consumer Price Index) to adjust the poverty line for inflation.

Incentives for Welfare Rather than Work

Another criticism of federal anti-poverty efforts -- and particularly of public assistance benefit programs -- has been that they have fostered incentives to go on welfare rather than to work and are also responsible for rises in illegitimacy. Each of these issues deserves examination.

Charles Murray contends that between 1960 and 1970, changes in welfare benefits made welfare more attractive than a minimum wage job for many families. He attributes basic changes in the work ethic among low income employable persons to changes in the mid-1960's to early 1970's period.

There are a number of problems with this analysis. First, while welfare benefits did rise in real terms in the 1960's, a minimum wage job was still more remunerative than welfare in most of the country in 1970. (Murray's analysis of this issue is flawed both in incorrect calculations of food stamp benefits and in the use of an atypical high welfare payment state as though it were representative of the nation as a whole).

Secondly, if Murray's thesis were correct that perverse welfare incentives spurred the growth of female-headed households and the rise in black unemployment, then these developments should have occurred to a much greater extent in the 1960-1970 period in those high welfare payment states in which adverse "incentives" actually existed than in the low welfare payment states in which the advantages of working were greatest and minimum-wage jobs remained vastly more remunerative than public aid. This did not occur, however. In fact, black youth employment fell more during this period in the South, where the welfare payments were the lowest and were far below than the minimum wage.

The "perverse welfare incentives" argument is even weaker when applied to the years after 1970. Starting about 1970, welfare benefits fell sharply in real terms. At the same time, the advantages of working were expanded through enactment in 1975 of the earned income tax credit for the working poor. The result is that by 1980, it had become substantially more remunerative in nearly all states to work at the minimum wage than to go on welfare. This is particularly important, because if perverse welfare incentives in the late 1960's actually led to family dissolution and black unemployment as the critics contend, then these trends should have reversed themselves in the 1970's, when the relative advantage of work over welfare increased sharply. But this didn't occur -- the number of female-headed households combined to grow and black employment declined further. In reality, this should not be surprising, since the benefit programs had little to do with causing these problems.

Indeed, there is a growing body of impressive research on the question of whether there is a relationship between welfare and illegitimacy. Although this may not fit the popular conceptions on this issue, the research finds no significant connection between welfare and out-of-wedlock births.

The landmark study on this issue was funded by the Health and Human Services Department during the Reagan Administration and was completed last year. The study, by Harvard researchers David Ellwood and Mary Jo Bane, found that welfare apparently has some influence on whether unmarried women who get pregnant continue to live at home. But Ellwood and Bane found that welfare has virtually no impact on whether unmarried women, including teenagers, get pregnant or bear children in the first place.

In subsequent writings, Ellwood has issued devastating critiques of the Murray thesis. Ellwood has noted that from 1972 to 1980, the number of children in black female-headed households rose nearly 20%, while the number of black children on AFDC fell by 5%. If AFDC is to blame for illegitimacy, why did the black AFDC population decline at the same time that black female-headed households were increasing rapidly? How can welfare be encouraging more single black women to have children if many of these same women do not collect welfare when the children are born?

Finally, there is important research that bears on the question of work incentives. For those who argue that anti-poverty efforts have sapped work incentives, the major "evidence" cited generally consists of data showing that between 1965 and 1980, the proportion of black men in the labor force declined and the employment gap between young white men and young black men widened.

The research actually points in other directions, however. Employment among black teenagers actually declined more in the 1950's, before the poverty programs began, than in any decade since. And virtually all of the decline in black teen-age employment from 1950 to 1970 was caused by the disappearance of low-paying jobs in the South, as southern agriculture was mechanized. Research by John Cogan, now associate director of OMB and a former Assistant Secretary of Labor in the Reagan Administration, found that in 1950, nearly half of all employed black teenagers worked as farm laborers, and more than 90% of these black teenage farm workers lived in the South. From 1950 to 1970, most farm employment in the South disappeared. As a result, the main source of employment for black teenagers vanished.

The evidence, Cogan concluded, is "inconsistent with the view that the growth in welfare participation among blacks is at the heart of the decline [in black teenage employment]." In the North, where welfare benefits were higher than in the South, black youth employment did not drop, Cogan noted.

By contrast, it was in the South -- where welfare payments were lower -- that black teenage employment fell.

To be sure, employment among black youth continued to fall after 1970, when the mechanization of southern agriculture was largely complete. But by the early 1970's, AFDC benefits were falling and welfare rolls had passed their period of growth, so the decline in black employment in this period cannot be blamed on expanding government benefits.

There are numerous other factors that appear to have contributed to the decline in black employment in the 1970's and to the widening job gap between black and white youth. The 1970's was a period of unprecedented competition for jobs, as record numbers of white women and black and white youth entered the labor market. In those swollen labor markets, further enlarged by increases in immigration, many young blacks from poor families (and often with poor educations) appear to have been pushed to the "back of the queue."

The stagnation of the general economy aggravated this problem. Employment rates for young black males are more sensitive to the performance of the economy than are the employment rates for any other demographic group. When the economy soured in the 1970's, young blacks were affected most.

Other factors also appear to have contributed to low employment rates among black youth (such as, perhaps, the growth of the "underground economy"). In addition, the fact that many more young blacks were attending college or enrolling in the armed forces in the 1970's meant that significant numbers of the most employable black youth were no longer in the civilian labor force, a factor which also tends to result in higher unemployment rates for the less employable persons who remain in the labor force.

But the existence of public assistance programs is, at most, only a small part of the unemployment story. The research in this area indicates that the availability of welfare has only small effects in reducing the degree to which AFDC mothers work outside the home. The effect on black men does not appear substantial either -- for the basic reason that men who are not elderly or disabled are not eligible for much in welfare in most areas. Cash welfare benefits available to unemployed young males range from meager to non-existent in most jurisdictions.

Where Do We Go From Here?

Claims that poverty programs backfired and made things worse -- or simply that the programs were failures -- do not stand up. The very real and troublesome problems of high unemployment (especially among black youth) and significant illegitimacy rates cannot be laid at the feet of War on Poverty efforts. And as noted, in a number of key areas these programs dramatically improved living conditions for millions of low income families and elderly persons.

But I would not want this discussion of poverty issues to be seen as simply a defense of the status quo or a call just for more of the same. If the benefit programs did reduce poverty and improve health care and nutrition, they did not, on the other hand, create jobs or increase earnings for large numbers of the poor. This, as well as efforts to tackle the extremely difficult task of reducing teenage pregnancy, remain tasks that continue to confront us.

To be sure, creating jobs for the poor would have been an extremely difficult task in an economy that, in the 1970's, was not generating enough jobs to prevent unemployment from rising and real wages from stagnating. But new, creative endeavors in this area are essential (and, if the economy improves in coming years, are more likely to be successful).

Other efforts are also important. Tax burdens on the working poor have soared in recent years -- and while the Congress debates lowering marginal tax rates to 35% for upper income Americans to spur incentives, the marginal tax rates for many working poor Americans are close to 100%.* (As an example of a perverse work incentive, the marginal tax rates on the working poor are hard to beat). The tax reductions the President has proposed for the working poor are a first and very necessary step to deal with this problem.

Expanding the earned income tax credit (EITC) further to benefit single individuals and larger families who work would be another important step that would specifically reward those of the poor who work -- and would strengthen incentives for working.

Further efforts to toughen child support collection are also needed. To the degree that we enhance the income of the working poor through an expanded EITC, and increase the income of low income mothers through better child support collections, the need for families to rely on public assistance will be somewhat diminished. If we can also mount successful job creation strategies aimed at the underclass, and can expand programs that enable low income persons to compete more effectively in the job market (such as supported work programs for low income mothers and work programs similar to that now being run for welfare eligibles in Massachusetts), the numbers of those needing public assistance checks will be reduced further.

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*For the working poor, additional earnings result not only in higher taxes but also in the loss of benefits. For each additional dollar earned by working poor mothers who receive AFDC and food stamps, close to a dollar is taken away in reduced benefits and increased taxes. As a result, effective marginal tax rates for these families approach (and in some cases exceed) 100%.

For those families with children who do need public assistance, however, we should at long last provide national minimum benefit levels that are tied to inflation, as we do for the elderly in the SSI program. We can debate statistics on poverty for years, but if we allow AFDC benefits to fall another 37% in the next 15 years, we can be certain that the numbers of American children living in destitution will reach levels not seen in this nation for decades.

Senator Symms. Mr. Murray, we welcome you here. Also, Senator D'Amato.

Representative Scheuer. Mr. Chairman, the acoustics in this room are absolutely dreadful, and I am having trouble understanding much of what is being said. So I would ask the witness to just hug that mike and speak right into it loud and clear.

Mr. Murray. I will do my best.

Representative Scheuer. I apologize for that.

Senator Symms. I am having trouble myself. Mr. Murray, please proceed.

STATEMENT OF CHARLES MURRAY, SENIOR RESEARCH FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH

Mr. Murray. Thank you for the invitation to testify.

Senator Symms. Your entire prepared statement will be made part of the record.

Mr. Murray. I will skip over most of it.

I would just like to begin by noting that there are certain things that are agreed upon, and I, for one, would like to subscribe to Peter Gottschalk's description of what has happened to the poverty statistics.

This is not something that we need to spend a whole lot of time worrying about, because the facts are known. The problem is the causal relationship of what caused what, and when my colleague Peter Gottschalk says things would have been a lot worse otherwise and I say no, it went the opposite direction, we are both involved in making some assertions about causality which require us to explore the dynamics of what went on.

Let me very briefly take up the one major issue of unemployment, because as other witnesses have pointed out, when you have rising unemployment you are, among other things, probably going to have rising poverty. That makes good sense. But I think that if you are going to understand what happened, you also have to look within those dynamics to see who gained, who lost, who is getting the jobs that are created.

In that regard, I would direct the attention of the members of the subcommittee to the section in my prepared statement where I break down job acquisition in the United States.

There were lots of jobs created in the United States from 1960 to 1980 despite rising unemployment, a huge number of jobs, as many have pointed out.

Well, who got those jobs? I specifically compare blacks with whites, and I break down the jobs by low skill versus high skill jobs using basic Department of Labor categories to do that, and there is a very striking contrast, which I don't think proves a thing.

I would like to emphasize this with regard to a great many of the things being said at this table and things being said in my book and in others, which is we are in the position right now of trying to explore a very complicated process. This is one way of trying to get into that process.

If you take a look at high skill jobs from 1960 to 1980 and look at how blacks did, they did terrific. The line on the graph, figure 5 of my prepared statement, indicates how well they did. Jobs climbed very rapidly from the 1959 baseline and they have climbed much higher on a percentage basis than they did for whites. That is good, because blacks were vastly underemployed in the higher skill jobs. That's a positive step. I would point out it was taking place well before strong affirmative action took hold too. But never mind that. They did well.

I present that graph primarily in order to establish a contrast with what I consider to be a very provocative set of trends, as shown in figure 6 of my prepared statement, the acquisition of low skill jobs from 1960 to 1980 by race. If you look at those lines, again you are looking at the percentage increase in those jobs from 1960 to 1965, and you will find that from 1960 to 1965 blacks continued to acquire low skill jobs proportionately as fast as whites did, which is also a healthy matter, because you had very high unemployment rates among blacks and you couldn't expect all of them to move into high skill jobs. They should have been acquiring low skill jobs.

In 1965 the bottom drops out of low skill job acquisition by blacks. For one reason or another—let's not worry about why right now—blacks suddenly stopped getting low skill jobs.

If you take a look at that not just in terms of the percentage increase but actually the raw numbers, as in figure 7 of my prepared statement—figure 7 is to be a question demanding an answer, because if you are creating many millions of new low skill jobs, why is it blacks didn't get any of them? I will go further. From 1965 to 1980 blacks lost another 117,000 low skill jobs. Now, something went on, and there are lots of explanations for it. There is the baby boomers competing with blacks; there are women entering the labor force.

In the prepared statement I present I describe at some length some reasons for thinking those don't really explain very much. If you have an opting out of the competion for low skill jobs at the same time you have rising unemployment rates, I would say you have to try to explain why.

Well, my explanation, based on what I can read from the literature, goes something like this if I try to relate this to the question of social programs.

Let me put it in terms of a phenomenon we are witnessing here in the District of Columbia right now. Let's think of the young man or woman living in the inner city of Washington, DC, today, where unemployment remains extremely high despite 2 years of a growing economy. We know that jobs are available in large number in the DC area. Across the river in Virginia there is a pronounced labor shortage.

Why, then, have the unemployment rates among blacks in the District remained so obstinately high? The most common explanation, as was described in the Washington Post at great length a few weeks ago, is that the jobs are too far away and public transportation is bad and it takes you a couple of hours to get to those jobs.

Well, that explanation and the uncritical acceptance of it is to me a fascinating commentary on the elite wisdom about social policy. To see this, stop for a moment and consider how preposterous that explanation would have sounded to our parents and grandparents.

For that matter, it is useful to ask oneself how many of one's middle class acquaintances routinely spend a few hours a day, perhaps even on public transportation, commuting to and from work. How many are routinely at work or on the way to and from work a total of 12 hours a day? How many have uprooted their families in the past and moved them across country to get a new job?

It is curious, but true, that public policy toward the poor applies a double standard in this country. What is reasonable and usual behavior for the middle class has come to be considered cruel and usual for the poor. This double standard has been pervasive in the way we have developed social policy since the 1960's whether the topic is unemployment or education or obeying the law or standards of personal responsibility for one's behavior.

In my mind no other single factor explains more about why we constructed social programs the way we did, administered them as we did, and fostered so many unhappy outcomes. The double standard has been nowhere more divergent and more injurious to the poor than the attitude of affluent whites toward poor blacks.

But let's suppose for a moment that the net pay for any one person taking such a low-income job is too small after you take out the transportation costs. Why don't you have two or three people from the same unemployed family take those jobs and pool their wages and have a net take that puts them well above the poverty line?

Well, you can't do that unless families consist of husbands and wives; you can't do that very easily unless there are fathers serving as role models for children. And these are inappropriate expectations to have of the typical poor family in urban America.

The tightly knit interdependent family has historically been the indispensable instrument for coping with poverty in America and around the world. But now there are alternatives to the spouse as a helpmate, alternatives to the parent as a provider, alternatives to the child as an insurance policy for one's old age, and those alternatives are in large part a direct creation of the public assistance programs. To expect large numbers of American poor to cope with unemployment as a family unit is now unrealistic. It didn't used to be.

If transportation is inadequate, why don't you have more low income housing over there in Virginia?

If you try to build low income housing in this country, you are going to lose your shirt. Rent control in some areas and rules about evicting tenants for nonpayment are so strict that nondiscriminatory statutes are going to prevent you from screening your tenants so that you can get good risks. You can't afford to build low-income housing, because you can't make money on it. Even if there were low-income housing, you can't necessarily expect a poor person to move to Virginia, because if they have a subsidized house here in Washington, they have a vested interest in remaining where they are.

But here the problems get worse when you try to explain why it is that you have a labor shortage in Virginia, because if the unemployed youth does go out to seek that job he may very well not get it. It's not just because of racism; it is also because he doesn't deal with numbers well enough to be cashier; he doesn't have the basic social skills and language skills to be a sales clerk even though he has a diploma and went to a school with a large grant under title I of the Elementary and Secondary Education Act of 1965. And he won't have learned those things for a whole variety of reasons, but a lot of them have a great deal to do with an elite wisdom that decided it was wrong to compel students to absorb the habits and values of the majority middle class.

If the youngster does get a job, earns $4.00 an hour, takes it home, he has to explain why it is that his friends next door are making so much more money from much less difficult and demanding jobs, mostly in the underground economy.

Well, in this explanation I think it is quite clear that a lot of things are going on, and they don't all have to do with the size of the AFDC benefit, and here I must say that the controversy I helped inflame with "Losing Ground" never said that they did. I must decline to accept the formulations of either Mr. Gottschalk or Mr. Gallaway as representing what I said in the book about the nature of these causes. The fact is that it was not the Medicaid program that caused the breakdown in public education and it was not AFDC payments which changed our law enforcement standards. You have a variety of things happening, all of which interacted and all of which changed the world in which a young person grew up, but all together across the various areas of social policy I would say there are changes which were fostered, facilitated, and enabled by social policy.

I conclude the prepared statement with a couple of pages suggesting what we might do. I think I have used up most of my time right now, so I will withhold those statements, except for one brief comment.

I do not think that this country is yet ready to have major changes in social policy, because we are still, most of us, much happier thinking that compassion lies in the way of spending rather than less. I think we are probably going to do better if we don't try to have minor cuts in AFDC and minor cuts in the food stamps program. Personally I would be in favor of agreeing to the advocates of larger spending in those programs, because as the years go on and we continue to see more hungry children, and we continue to see more babies that require AFDC payments, as we continue to see an increase in the problems despite the continued effort to increase the expenditures in these programs, perhaps finally we will come around to a point where we will be able to confront much more squarely the nature of the dilemma we face.

Thank you.

Senator SYMMS. Thank you very much, Mr. Murray.

[The prepared statement of Mr. Murray follows:]

Among the elderly, the large increases in public assistance programs in the 1960s and early 1970s were associated with very large reductions in the poverty level among the elderly, concentrated from the years 1968 through 1974. On the less positive side, it should be added that these reductions were achieved inefficiently. Without a means test for Social Security benefits, a very large proportion of the increased expenditures have gone to elderly people who are not poor. (Even in 1965, it must be remembered, 70 percent of all persons over 65 were not poor.) It should also be noted that the reforms may have had some adverse side-effects in rates of savings and other behaviors.[2] But the increases in spending for the elderly did reduce poverty.

For the working-aged, the picture is very different. Figure 2 on the following page shows the percentage of the population under the age of 65 living in poverty from 1959-1983. The fierce defense currently being waged on behalf of income transfer programs for the working-aged ultimately comes down an effort to explain why Figure 2 does not really mean what it seems to mean. Standing unadorned, without exegesis, the measure of poverty that was created by the federal government as the metric for assessing progress says that the public spending intended to lift the working-aged poor out of poverty was a conspicuous failure. Before 1969, and stretching back to the end of World War II, this measure revealed steady progress.[3] As the economy grew, the poor diminished in numbers, and the working-aged poor diminished fastest of all. The United States was not

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[2] See for example Martin Feldstein and Anthony Pellechio, "Social Security and Household Wealth Accumulation: New Microeconomic Evidence," Review of Economics and Statistics 61 (August 1979), pp 361-68.

[3] The official poverty measure has been calculated retrospectively back to 1947, when it is estimated to have stood at 33 percent of the population. See Molly Orshansky, ed., The Measure of Poverty, Technical Paper I, vol. 1 (Washington, D.C.: Government Printing Office, n.d.), p. 349. We do not have a breakdown by age group for the years prior to 1959. Based on experience from 1959-67, before the major increases in Social Security began, reductions were concentrated among the working-aged--as could be predicted logically. When government transfers are relatively small, reductions in poverty are produced almost exclusively by economic growth, and the benefits of economic growth accrue initially to the work force.

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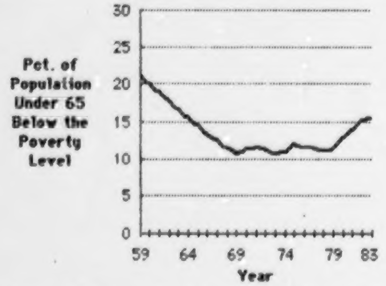

Source: Bureau of the Census, Characteristics of the Population Below the Poverty Level: 1983. Series P-60, No. 147 (Washington: Government Printing Office, 1985), Table 1. Data for 1966 from P-60, No. 140, Table 15.

Figure 2. Poverty Among the Working-Aged, 1959-1983

THE ROLE OF IN-KIND BENEFITS

Perhaps progress did not really stop. Perhaps it only appeared to stop, because the poverty measure is misleading. And in fact it is, in two quite different ways. First, as the Congress has been discussing for some years, the official measure does not take in-kind benefits into account. A variety of methods for doing so have been explored by the Bureau of the Census.[4] Insofar as we can tell from the available data, however, none has much effect on explaining away the problem posed by Figure 2. According to the most widely used figures prepared by Professor Timothy Smeeding, reductions in poverty for the population as a whole continued to 1972-73, and stopped thereafter, regardless of whether the measure is the "official" one or a measure incorporating the value of in-kind benefits.[5] We also know that the apparent reductions in poverty among the population as a whole during the period 1969-73 masked the end to progress among the working-aged. This same phenomenon must be presumed to have affected the apparent reductions in 1969-73 after in-kind benefits are taken into account, because such a large proportion of the in-kind benefits were earmarked for older citizens. In 1970, for example, Medicare, exclusively for the elderly, was a $7.1 billion program compared to $577 million for Food Stamps and and $582 million for public housing (both of which were themselves substantially directed at the elderly). Medicaid, the only major in-kind benefit program in which the elderly did not participate, cost $5.2 billion in combined federal and state expenditures.[6] In the early 1970s, in-kind benefits cannot be expected to have pushed the poverty rate among the working-aged more than one or two percentage points below the levels shown by the official statistics. The shape of the trendline shown in Figure 2 would be essentially unaffected by the inclusion of income transfers.

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[4] Three recent papers from the Bureau of the Census, Technical Papers 50, 51, and 52, have been grappling with this extremely difficult methodological problem. The most recent is Technical Paper 52, Estimates of Poverty Includingthe Value of Noncash Benefits, 1983 (Washington: Government Printing Office, August 1984).

LATENT POVERTY

The official poverty statistic misleads in a second way by lumping together income from all sources. When Lyndon Johnson signed the first anti-poverty bill, he made his intention clear: Success would be measured by getting people off the dole, able to make a decent living on their own, not by sending out enough checks to enough people to keep them above the poverty line.[7] The official poverty statistic does not measure progress toward this goal. The poverty statistic that does measure such progress is what I call "latent" poverty, sometimes also referred to as "pre-transfer" poverty. This statistic reports the number of people who would be poor if it were not for government transfers. Figure 3 shows the level of latent poverty in the years for which a figure has been calculated by researchers at the Institute for Research on Poverty.

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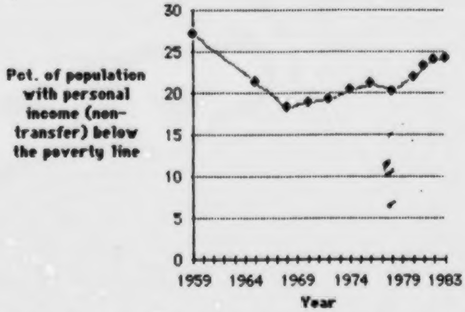
[5] Using the analyses of Timothy Smeeding, who was commissioned by the Bureau of the Census to write its first major paper (Technical Paper 50) on this issue. See also Timothy Smeeding, "Recent Increases in Poverty in the U.S.: What the Official Estimates Fail to Show." Testimony prepared for Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C., October 18, 1983.

[6] Bureau of the Census, Statistical Abstract of the United States, 1980 (Washington, D.C.: Government Printing Office, 1980), Table 534.



Source: Institute for Research on Poverty, Focus, Vol. 5 (Winter 1981-1982), Table 1, and Sheldon Danziger (Director, IRP), personal communication. Figure for 1959 is estimated.

Figure 3. Latent Poverty from 1959-1983

On this measure, we did not simply stop making progress in 1969. We started heading in the wrong direction.

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[7] See "Johnson Signs Bill to Fight Poverty; Pledges New Era," New York Times, 21 August 1964.

How important is the measure of latent poverty? In recent years, analyses of the poverty statistics have been based virtually without exception on the assumption that more money automatically means greater well-being for poor people. Few of these analysts would make the same claim for middle-class people, let alone the rich. On the contrary, the pursuit of higher incomes at these levels is more often treated as intellectually and morally suspect. But for poor people it has been assumed that $14,000 is always better than $12,000; $12,000 is always better than $10,000; and the question of where the money came from is trivial, the kind of thing that concerns only curmudgeonly moralists who don't understand the realities of poverty.

I disagree profoundly, for reasons that I have described at length elsewhere.[8] Self-reliance is not desirable just for abstract reasons. The self-reliance of a family is intimately bound up with the way that parents see themselves and raise their children, the way that children see their parents and their own responsibilities, and, by extension, intimately bound up with many of the problems in crime, education, illegitimacy that make life in our poor communities nearly unbearable.

To me, Figure 3 portrays not just the failure of the transfer programs to continue the progress against poverty, but a change involving a centrally important measure of the American ideal. For many years--throughout American history, one may speculate--this country had provided a system in which larger and larger numbers of people were able, through their own efforts, to provide a decent living for themselves and their families. For whatever reason, that historic trend reversed at the close of the 1960s. The official poverty statistic is indeed misleading, but the most important way it is misleading is by masking this reversal. Measured officially, progress against poverty among the working-aged stopped. Measured in the way that Lyndon Johnson wanted to defeat poverty--in the way that, once upon a time, was the only acceptable way to defeat poverty--we have been losing ground for more than fifteen years.[9]

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[8] Murray, Losing Ground, pp. 178-91.

"It Would Have Been Worse Otherwise"

This leads us to the great conundrum about the poverty statistics. My colleague Peter Gottschalk who is also testifying today can examine the same trendline for latent poverty and see in it dramatic confirmation of the need for the expanded public assistance programs of the 1970s and for continued expansion in the 1980s. Unemployment and nonparticipation in the labor force, especially among young blacks, have shown a secular upward trend since the 1960s, and unemployment is a major cause of poverty.[10] Households headed by a single female, especially households headed by a single, poorly educated young female, have also increased rapidly since the mid-1960s, and such households naturally tend to be poor.[11] On these and similar grounds, it has been argued that the flat trendline in poverty is in fact evidence of success: without the income transfers, poverty would have increased much more than it actually did.

Neither side in the dispute can make its case in the absence of some crucial causal assumptions. If the decline in employment among black youths is caused by variables exogenous to social policy; and if the rise in female-headed households among blacks is caused by variables exogenous to social policy, then the con-

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[9] Can the increase in latent poverty be attributed to an increase in the elderly? It seems more likely that the opposite is true. The evidence on this point is fragmentary but provocative. The "inflation" of the latent poverty rate caused by the elderly was substantially smaller in 1976 than it was in 1983; a finding that is consistent with collateral data about the changes in the economic situation and the size of different age cohorts during the 1970s. It appears likely that the slope of the increase in latent poverty after 1968-69 would have steeper, not shallower, if data excluding the elderly were fully available. See Murray, Losing Ground, p. 274.

[10] Ibid., Chapter 5.

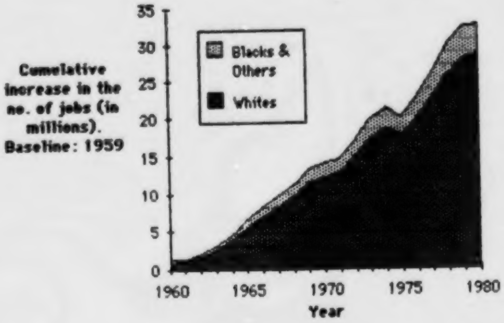
[11] Ibid., Chapter 9. For effects on the poverty rate, see Gordon Green and Edward Welniak, Changing Family Composition and Income Differentials, Special Demographic Analyses CDS-80-7 (Washington, D.C.: Government Printing Office, 1982).

clusion is inescapable: without the increases in transfer payments, poverty among the working-aged would have risen substantially during the 1970s. If these phenomena were in part effects of social policy, then one may examine the massive job creation that occurred and ask why certain segments of the American population opted out of competition. One may ask why increasing numbers of blacks and poor people in general formed single-parent families that virtually guaranteed they would remain poor no matter what happened to the economy. What is causing what?

UNEMPLOYMENT AND CAUSES: THE CASE OF BLACK JOB ACQUISITION

Let me take up this question with regard to one of the most obvious culprits for the end to progress against poverty, increasing unemployment. Who lost what kinds of jobs, when? Who gained? To what extent can we at least take comfort that the increases in public assistance programs had just been put in place when, by happy coincidence, the need for them began to increase?

First, consider the nature of job creation in the United States during the 1960s and 1970s. Figure 4 shows the growth of jobs broken down by race. It is presented to emphasize a fact that is too often forgotten in the discussion of rising unemployment: some people were not getting a piece of the pie, but the pie itself was growing very fast.



Source: Department of Labor, Employment and Training Report of the President, 1980 (Washington: Government Printing Office, 1981), Table A-20.

Figure 4. Job Creation from 1960-1980

As Figure 4 shows, blacks as well as whites increased their total number of jobs. But there was a curious pattern in the nature of the jobs they got. I begin with higher-skilled jobs, using the Labor Department's categories of white collar and "craft and kindred" to represent such jobs.[12] Figure 5 shows the relative success of whites and blacks in improving upon their situations as of 1959:

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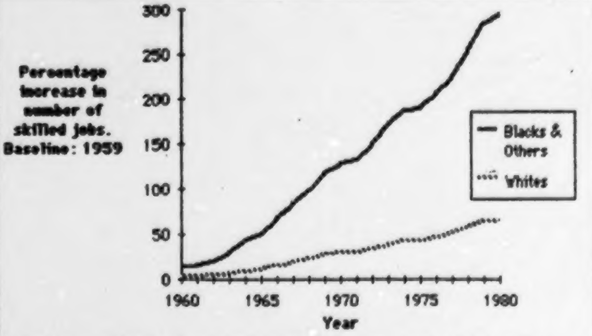
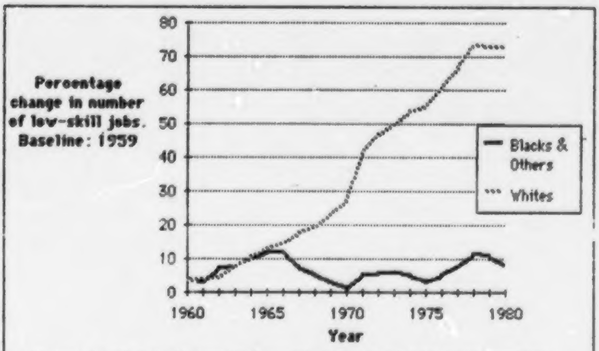
[12] The job category of "operatives" might also be in this set. Some of its elements (e.g., heavy equipment operators) call for specialized skills. It is a borderline judgement. Including it does not change the nature of the results; blacks got a very high proportion of the new "operatives" jobs that were created. See Table 1 below.



Source: Department of Labor, Employment and Training Report of the President, 1980 (Washington: Government Printing Office, 1981), Table A-20. "Skilled" is the sum of workers in the white collar and "craft & kindred" categories.

Figure 5. Acquisition of Skilled Jobs from 1960-1980, by Race

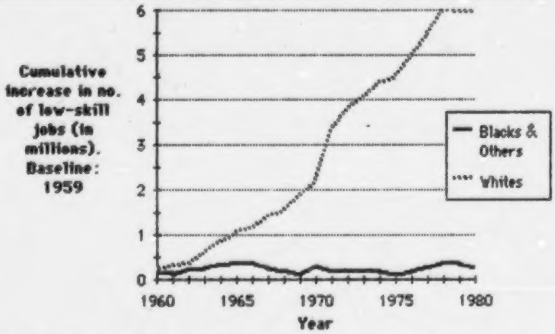
Figure 5 is expressed in terms of percentage increases, which is the best way of understanding how blacks did relative to the size of their population. But black progress looks impressive as well when the numbers are expressed in terms of raw number of jobs. Overall, blacks gained a net of 4.0 million jobs in the skilled-job categories. Contrast this with Figure 6 below, calculated in the same fashion, for low-skill jobs.



Source: Department of Labor, Employment and Training Report of the President, 1980 (Washington: Government Printing Office, 1980), Table A-20. "Low-skill" is the sum of workers in the nonfarm labor and service categories.

Figure 6. Acquisition of Low-Skill Jobs from 1960-1980, by Race

Through 1965, blacks continued to acquire new low-skill jobs as fast as whites did. Then they stopped doing so. The economy continued to generate such jobs, in very large numbers. Many of them passed invisibly into the hands of illegal aliens. But even if we limit the data to the visible jobs for which blacks and whites were competing, the black record is disheartening. Lest it be thought that Figure 6 reflects an artifact created by the use of percentage increases, I repeat it in Figure 7, using raw numbers of jobs:



Source: Department of Labor, Employment and Training Report of the President, 1980 (Washington: Government Printing Office, 1981), Table A-20. "Low-skill" is the sum of workers in the nonfarm labor and service categories.

Figure 7. Numbers of New Low-Skill Jobs from 1960-1980, by Race

From 1959 to1980, the economy generated 6.2 million new low-skill jobs. Of those, blacks had a net gain of 231,000. All of that net gain of 231,000--indeed, more than that net of 231,000-- had been obtained during the period 1960-65. After 1965, blacks lost a net 117,000 in the low-skill categories, at the same time that whites were acquiring almost 4.9 million.[13] Those of us who disagree on why things happened may nonetheless agree on one undeniable fact: something happened to change either the behavior of blacks, or the behavior of employers, or both. What might this "something" have been?

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[13] It should be noted that these figures all refer to nonfarm jobs, to avoid confounding with the effects of the loss of agricultural jobs.

A DIMINISHING NEED?

The need for jobs for low skilled blacks would seem to have been greater than ever before. The employment situation among young blacks, those who were most likely candidates for low-skill jobs, was deteriorating rapidly. Even during the boom economy of the Vietnam War from 1965-69, black teenage unemployment never dipped below 24 percent.[14] The employment position of young blacks relative to young whites actually worsened during the boom. A black/white teenage unemployment ratio that had remained stable at approximately 1.9 to 1 during the early 1960s increased in a single year, the boom year of 1966, from 2.0 to 1 to 2.3 to 1, where it stayed for the rest of the decade. Meanwhile, a gap was also opening up in the labor force participation of white and black youth.[15] There was ample need for low-skill employment among blacks after the mid-1960s.

THE AMBIANCE OF THE SIXTIES?

Menial jobs are demeaning: such was one of the discoveries of the 1960s, and it may be hypothesized to have affected black attitudes toward low-paying jobs more than it affected white attitudes, primarily because of aspects of the black pride movement. I will not try to identify the extent of these changes, but two observations seem relevant. One is that heightened black pride could as easily be expected to produce a frame of mind in which blacks were determined to be independent--the immigrant syndrome. Why should we think it natural that rising black pride would produce a preference for no job to a menial job? A second observation is that in this case attitudes do not enable behavior. Any of us might naturally prefer leisure to a menial job if we had the choice--our "attitude" toward such jobs might be very negative. But we are unlikely to act on that attitude unless we have an alternative. Very few of us will choose to starve rather than accept an undesirable job. The reforms of the the 1960s are most accurately seen in this arena as a facilitator for behaviors that are always waiting to happen, not as changes that provoked strange new ways of acting.

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[14] Unless otherwise specified these and other labor force data are taken from Bureau of Labor Statistics, Labor Force Statistics Derived from the Current Population Survey: A Databook, Volume I (Washington, D.C.: Government Printing Office, 1982).

[15] Murray, Losing Ground, pp. 75-8.

THE BABY BOOMERS?

The changes might be explained by the enormous increase that took place in the size of the labor force. Professor John E. Schwarz, writing in America's Hidden Success, has argued that the "crowded generation" entering the work force from 1965 onward is to blame.[16] The causal mechanism whereby the baby boom or the influx of women into the labor force produce these effects is competition. More whites are in the job market. Given a choice, employers hire the more attractive candidates, who tend to be white--either because of superior preparation or simple racism. The job market is perceived as a queue in which blacks stand at the end.

In Losing Ground, I suggested that such explanations are inadequate because of the peculiar timing of the changes in behavior: The gap in labor force participation did not open up during a time of economic slowdown, but during the boom years of the 1960, when jobs were being created faster than even the baby-boomers could enter the labor market. Also, if the baby boomer hypothesis is to be accepted, it must be explained why older blacks did well. They, after all, tended to be poorly educated, they had grown up in an era of open racism, and were without even the assets of youthful vigor and flexibility. They should have been most vulnerable to a changing economy and to increased competition from the baby boom and women. But older blacks continued to improve their employment position long after the position of young blacks had deteriorated.[17]

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[16] John E. Schwarz, America's Hidden Success: A Reassessment of Twenty Years of Public Policy (New York: W.W. Norton, 1983), pp. 124-30.

The swelling labor force hypothesis is susceptible, however, to more direct treatment than I presented in Losing Ground insofar as it implies that increases in the size of the labor force are associated with the deterioration in the employment position of black youths. Has this been the case? Have, in fact, increases in the number of persons competing for jobs been associated with the increase in the gap in black-white labor force participation or the increase in the black-white unemployment ratio?

If a relationship exists, it is not immediately apparent. From 1955-80, the labor force increased at a mean of 1.7 million persons annually, and the range of the annual increase was great, from a low of 155,000 in 1962 to a high of 3,242,000 in 1978. But there is no direct association between the size of the increase from year to year and the changes in the unemployment and LFP gaps between blacks and whites. Using data for the period 1955-80, the correlation of the annual changes in the size of the labor force with the corresponding change in the size of the black/white LFP gap among teenagers is effectively zero (+.03), as is the correlation with changes in the black/white teenage unemployment ratio (also +.03).[18] Black teenagers did not experience greater employment problems in years with the larger increases in the labor force.

A more useful representation of change in labor force size is one that takes the job-creation performance of the economy into account. The indicator in this instance is "net work-seekers": the year's increase in the size of the labor force minus the year's change in the number of employed persons. A positive number thus represents more new work-seekers than jobs, and a negative number represents more new jobs than there were new workers to compete for them.

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[17] Murray, Losing Ground, pp. 72-4.

[18] Pearson r using annual changes in: total civilian labor force, black/white unemployment ratio for 16-19 year-olds, and the black-white percentage gap in LFP for 16-19 year-olds. "Black" in all cases denotes "black and other." It should be noted that comparable results obtain when the change in size of the labor force is expressed as a percentage increase instead of a raw numerical increase.

Again using the experience from 1955-80 for black and white teenagers (ages 16-19), the data do not fit expectations. In fourteen of those years, the increase in the number of employed persons exceeded the increase in the labor force; yet in 12 of those 14 years, the gap in labor force participation increased. In 11 of those years, the unemployment ratio increased. Overall, the correlation of "net work-seekers" with annual changes in the labor force participation gap was -.02; the correlation with first difference in the unemployment ratio was strongly inverse (-.53). Some of the worst deterioration in the black employment situation relative to whites occurred not when there was a shortage of new jobs, but in the years when there was a surplus.

We may also explore the hypothesis that it was specifically the increase in the number of teenagers, not general increases, that affected the indicators in question. Here too the bivariate relationships remain low. The correlation of the first difference in the size of the teenage population ages 16-19 with first difference in the gap in LFP is +.16; with first difference in the unemployment ratio, +.06.

Space does not permit extension of these numbers to other age groups, nor will I attempt to develop more complex models here. I will leave it as an assertion (one that can be readily explored from data in the appendix of Losing Ground) that the weakness of the relationship between the increase in the labor force, size of the teenage cohorts, and the labor force behavior persists across age groups and across sexes. This does not mean that changes in these demographic variables had no effect at all. I would expect that they did, and that a well-specified model will reveal such independent effects. The question is whether the relationships have much explanatory power, and to this the answer so far seems to be "no." The more complex modelling that has been done to date supports this conclusion.[19]

THE EMPLOYERS' FAULT?

I have been suggesting, here and in Losing Ground, that the posture of low-income persons toward jobs changed. It was "their fault," if one wishes to put it that way, that they were unable to acquire at least some proportional number of the low-skill jobs that were being created. Another possibility is that the competition for such jobs was not only numerically too great, but qualitatively too great.

To examine this, let us return to the successes and failures of blacks to acquire jobs during the period 1960-1980, breaking down the job categories more precisely. Given the queue explanation of the deterioration in the employment of blacks--that blacks were at the back of the line--what proportions of these new jobs might be expected to have gone to blacks? Or to put it another way, for which of these job categories was the competition from the influx of white women and baby-boomers most intense? I invite people to answer the question before examining Table 1, which shows the proportion of the new jobs acquired by blacks.

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[19] M.L. Wachter and C. Kim, "Time Series Changes in Youth Joblessness," unpublished manuscript, University of Pennsylvania, 1979.

Table 1. Percent of New Jobs Obtained by Blacks

	White Collar	Craft & Kindred	Operatives	Nonfarm Labor	Service
1960-65	11.4%	16.0%	16.6%	11.3%	24.4%
1965-70	14.0%	18.2%	63.5%	(10.4%)	(9.1%)
1970-75	17.6%	12.7%	n/a*	(9.4%)	7.2%
1975-80	14.9%	15.8%	30.9%	(4.2%)	13.6%

Open figures refer to the net increase in black jobs during that period expressed as a percentage of all new jobs in that category during that period. Figures in parentheses denote a net loss of black jobs, expressed as a percentage of the jobs in that category held by blacks in the baseline year.

* The number of jobs in the "operatives" category decreased during this period.

Source: Employment and Training Report of the President, (Washington, D.C.: Government Printing Office, 1981), Table A-20.

Table 1 recapitulates from another perspective the trends shown in Figures 6 and 7. "Blacks and others" constituted roughly 11 percent of the population in 1960 and 14 percent in 1980. Applying this information to Table 1, it may be said that in the early 1960s blacks were acquiring at least their share of new jobs in every category of employment. I suggest that after the mid 1960s, blacks got their jobs where the competition from baby-boomers and women was greatest, and lost jobs (or failed to acquire their proportional share) where the competition from baby-boomers and women was least.

Consider the loss of black jobs in the nonfarm labor category, a trend that persisted from the mid 1960s through 1980. Were women naturally so attractive to potential employers? Women also had to fight discrimination, especially in the nonfarm labor sector. For nonfarm labor and service jobs involving heavy work, women were also at a competitive disadvantage because of size and strength. Nor can it be assumed that employers gave preference to job candidates who had extra academic or other credentials--"overqualification" can be as much of a handicap as other forms of discrimination. The notion that an employer, given the choice, would naturally rather hire a white woman or a college-educated white than a young, poorly educated black for low-skill labor is not necessarily valid.

On the face of it, blacks competing for the skilled labor and white-collar positions would seem to have faced the most severe obstacles in a rapidly expanding labor force. The higher the skill, the more likely that licensing restrictions and union rules impeded black entrance into the workplace.[20] Blacks seeking professional positions faced a burgeoning pool of white competitors who had gone to better colleges and had higher grades and test scores.[21] Why then did blacks do so well in getting their share of the higher-skill jobs while doing so poorly in the lower-skill jobs? Affirmative action? But blacks were doing well in all job categories in the early 1960s, before the affirmative action legislation and court decisions were made. They continued to do well in the late 1960s in the higher-skill categories, before the Equal Employment Opportunity Commission had begun to wield enforcement powers and before "strong" affirmative action (quotas) had begun to take hold.

It may well be true that beginning in the mid-1960s employers did tend to favor whites, women (or Asians) for positions that formerly tended to go to blacks, but not necessarily because white employers were waiting for the opportunity to express their racism. Rather, I argue, job-seeking behaviors and on-the-job behavior were changing in ways that made the youths from working-class and middle-class families more attractive employees than youths from the poorest segments of the community. This explanation, I should add, implies a specific prediction: Microeconomic analyses of the employment experience of black youths from blue-collar and middle-class families will reveal that they acquired and held low-paying jobs at rates approaching those of whites. Similar analyses of the experience of poor white youth will reveal that their patterns of low-skill employment are similar to those usually associated with black youth.

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[20] See Walter Williams, The State Against Blacks (New York: McGraw-Hill, 1982).

[21] Charles Murray, "Affirmative Racism," The New Republic, 31 December 1984, pp. 18-23.

The Role of the Social Programs

I began by pointing to the sudden end to progress against poverty among the working-aged. A common explanation for the end to progress is that unemployment among poor people has risen; ergo poverty could not continue dropping. I have then tried to match this explanation against a puzzling, complicating phenomenon, the apparent inability of blacks after the mid-1960s to compete for low-skill jobs. All of this is anexample of the kind of analysis that I believe has been too uncommon in recent appraisals of social policy. We have tended to cry out or "Unemployment" or "Inflation" or "Racism" as explanations for why things have gone wrong, when these are not so much explanations as incantations. The more they are looked into, the less they explain.

But this brings us to the question that is behind the hearings today: What do social programs, and specifically the public assistance programs, have to do with the end to progress? In Losing Ground, I take three chapters to describe my interpretation; I will be much more brief here, but I must warn also that I will be cutting corners.

The effects of social programs on unemployment can be most easily conveyed by thinking in terms of a young man or woman living in the inner city of Washington D.C. today, where unemployment remains extremely high despite two years of a growing economy.[22]

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[22] The D.C. teenage unemployment average for 1984--a year of high economic growth--was 36.5 percent. Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment, 1984, Bulletin 2234 (Washington, D.C.: Government Printing Office, 1985).

Jobs are available--large numbers of jobs, requiring few skills. Across the river in Virginia, there is even a pronounced labor shortage. Why then do so many remain unemployed?

The most common explanation is that the jobs are too far away. It can take an hour or two to get to them on public transportation. Of course unemployment in the inner city remains high despite a labor shortage across the river, we are told, because the jobs are too hard to get reach via public transportation. A person spend as much as twelve hours away from home for an eight-hour, low-paying job.

This explanation and the generally uncritical acceptance of it is a fascinating commentary on the elite wisdom about social policy. To see this, stop for a moment and consider how preposterous that explanation would have sounded to our parents and grandparents. For that matter, it is useful to ask oneself how many of one's middle-class acquaintances routinely spend a few hours each day (perhaps even on public transportation) commuting to and from work? How many are routinely at work or on the way to and from work for a total of twelve hours a day? How many have uprooted their families at one time or another, perhaps several times, and moved them across the country in order to take a job? It is curious but true that public policy applies a double standard. What is reasonable and usual behavior for the middle class has come to be considered cruel and unusual for the poor. This double standard has been pervasive in the way we have developed social policy since the 1960s, whether the topic is employment or education or obeying the law or standards of personal responsibility for one's behavior. No other single factor explains more about why we constructed social programs the way we did, administered them as we did, and fostered so many unhappy outcomes. The double standard has been nowhere more divergent, and more injurious to the poor, than in the attitude of affluent whites toward poor blacks.

But let us accept for the moment that the net pay for one person is small. Why not have two or three people from the family get jobs and pool their wages, thereby producing a handsome net take that puts the formerly unemployed family well above the poverty line? But that solution is hard to implement unless families consist of husbands and wives. It is hard to implement unless children have fathers serving as role models. These are not appropriate expectations to have of the typical poor family in urban America. The tightly-knit, interdependent family has historically been the indispensable instrument for coping with poverty, in America and around the world. But now there are alternatives to the spouse as a helpmeet, alternatives to the parent as a provider, alternatives to the child as an insurance policy of one's old age, and those alternatives are in large part a direct creation of the public assistance programs. To expect large numbers of American poor to cope with unemployment as a family unit is now unrealistic. It did not used to be.[23]

If transportation is inadequate, why not move to where the jobs are? For one thing, there is too little low-rent housing. Why is there so little low-rent housing? In part, because anyone who builds low-rent housing is likely to lose his money. Rent control in many locations means that the rent cannot be changed to keep pace with rising costs. Tenants who do not pay can avoid eviction for many months. If one screens tenants to keep out the bad risks, one is in violation of non-discrimination statutes and a sitting duck for a lawsuit.

Let us assume that housing is available. Moving can still be far too expensive if one lives in subsidized housing. Better to stay in the cheap apartment, jobless, than take a low-paying job and pay the market price for housing. Unemployed poor can have a vested interest in not investing in their futures.

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[23] For an example of how recently we could expect differently, see Joseph D. Mooney, "Urban Poverty and Labor Force Participation," American Economic Review 57 (March 1967), pp. 104-19, projecting reductions in poverty based on historical experience and two-income families among the urban poor.

Let us assume that the unemployed youth does go out to seek a job. Often, he will not get it. He is unable deal with numbers well enough to be a cashier. He does not have the basic language skills to be a sales clerk. Why not? Because while he has a diploma, and went to a school with large grants under Title I of the Elementary and Secondary Education Act of 1965, he will not have learned these most basic of skills. Why not? For a melange of reasons that, among many others, include Supreme Court decisions on due process for students, an elite wisdom that decided it was wrong to compel students to absorb the habits and values of the majority middle class, and an Office of Education that used its control over the dispensation of funds to implement that elite wisdom.

Finally, let us suppose our unemployed young person does get a job. He makes, let us say, $4 an hour. He works hard, goes home with his $32 for the day, less transportation costs and withholding, and has to explain to his friends why he is willing to work for such chump change when they can make many times that, with much less effort and very little risk, dealing a little dope or fencing stolen goods.

My point should by now be clear. The public assistance programs of the War on Poverty did indeed contribute to the kinds of dynamics that produce dependence, but in my description there is also a tangle of other factors. How can changes in the AFDC program be blamed for the collapse of inner-city education? How can the food stamp program be blamed for the drastic change that occurred in law enforcement in poor communities? How can Medicaid be blamed for rent control? The answer is: They can't. There is no single demon to blame, and no single fix that will put things right again.

This is a message that has gotten lost. Somehow, as I fear is represented in today's testimony, it has become an article of faith that the controversy about social programs that Losing Ground helped inflame can be resolved by using the amounts of money spent on such programs as the independent variable in regression equations. With all respect to both Professor Gottschalk and Professor Galloway, I must point out that their formulation of the Murray hypotheses are not mine, and their tests, whether they produce results that are interpreted as favorable or unfavorable, are not ones that Losing Ground would justify. In summing up the nature of the relationship between social programs and the many ways in which the poor have been losing ground, perhaps it is appropriate to cite not what others say I said, but what I actually said when I summed up the argument in the book:

> *The discrete empirical links between changes in sanctions for crime and criminal behavior, between changes in school rules and learning, or between changes in welfare policy and work effort are essential bits of the puzzle, but they are also too tightly focused. None of the individual links is nearly as important as the aggregate change between the world in which a poor youngster grew up in the 1950s and the one in which he or she grew up in the 1970s.* All the changes in the incentives pointed in the same direction. It was easier to get along without a job. It was easier for a man to have a baby without being responsible for it, for a woman to have a baby without having a husband. It was easier to get away with crime. Because it was easier for others to get away with crime, it was easier to obtain drugs. Because it was easier to get away with crime, it was easier to support a drug habit. Because it was easier to get along without a job, it was easier to ignore education. Because it was easier to get along without a job, it was easier to walk away from a job and thereby accumulate a record as an unreliable employeee.
>
> In the end, all these changes in behavior were traps. Anyone who gets caught often enough begins going to jail. Anyone who reaches his mid-twenties without a record as a good worker is probably stuck for the rest of his life with the self-fulfilling prophecy he has set up--it is already too late for him to change the way he thinks about himself or to get others to think differently of him. Any teenager who has children and must rely on public assistance to support them has struck a Faustian bargain with the system that nearly ensures that she will live in poverty the rest of her days. The interconnections among the changes in incentives I have

> described and the behaviors that have grown among the poor and disadvantaged are endless. So also are their consequences for the people who have been seduced into long-term disaster by that most human of impulses, the pursuit of one's short-term best interest. (Emphasis added)[24]

How easy fixes would be if only the problems were as simple as a welfare benefit that is slightly too high, or a jobs program that was slightly mis-designed. They are not.

WHAT IS TO BE DONE?

The Subcommittee asks which programs have been most and least successful. I am reluctant to try to answer that because some of the least effective programs (I have in mind certain of the training and educational programs) have not been necessarily ineffective. I am reluctant as well because I am not convinced that bad programs are improved by small reductions. In formulating new policy, I think we would do well to apply two guidelines.

One is that a consensus for major reforms of the social welfare system does not exist, and attempts to force the pace will probably be counterproductive. Most policymakers and a majority of the public alike are still convinced the way of compassion lies in doing more, not less. Because of this, I personally would favor giving in (up to a point) to pleas for more food stamps, more generous Medicaid coverage, higher AFDC benefits, more public housing units. Let us give their advocates one more chance. And when for some perverse reason the number of hungry people keeps increasing, the number of babies who need those AFDC checks keeps increasing, and the number of unemployed and unemployable youth keeps increasing, perhaps some day we will be able to confront squarely the need for major reform. We are not ready yet.

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[24] Murray, Losing Ground, pp. 175-6.

The second guideline is to do what we can for those low-income families who have been trying to everything right--hold a job, educate their children, obey the law, be good citizens--and have been punished by policies that have catered to the least deserving.[25] Let us provide them with physical safety for themselves and their children--from violence, from theft, from drugs. It is probably the most far-reaching benefit we could give them, and one that we have been most remiss in withholding. Let us provide them with schools that teach children who are ready and willing to learn. The easiest way, in my view, is the educational voucher, giving to poor parents the same power to reject the public schools that affluent parents in urban America have already exercised so widely. Let us increase training opportunities for youth--with the first slots open not to delinquents or to drug abusers, but to the youths who are already holding down jobs but want to do better. When we do attempt programs to help the delinquent, drug abuser, or teenage mother, let us try to find ways to use the energies and capabilities of local institutions--"mediating structures," as Richard Neuhaus and Peter Berger have called them--rather than continue the lifeless efforts of government bureaucracies.[26] These steps will not do much to help the underclass, but they will do something to help those who ask only a chance. They have been pushed aside far too long.

Thank you.

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[25] This theme has frequently and eloquently been expressed by Professors Thomas Sowell and Walter Williams.

[26] Peter L. Berger and Richard John Neuhaus, To Empower People: The Role of Mediating Structures in Public Policy (Washington, D.C.: American Enterprise Institute, 1977).

Senator **Symms**. Normally in the JEC we operate under a 10-minute rule, but since we have two Members of the House here and one former Member of the House, we will go into the 5-minute rule. I might say that all of the witnesses got through in about 45 minutes, so you came pretty close. I compliment all of you for helping us move the hearing along and get the basic thrust of your positions on the record.

There have been some very contradictory comments made here this morning.

Mr. Greenstein, you made a statement that bordered on being outrageous about the current situation with regard to revenues. You are certainly aware of the fact that the revenues to the Federal Government have been going up every year, aren't you? Did you mean to leave that implication? The Federal Government gets more money every year than it has in the past year. We have had a constant increase in revenue flow to the Treasury and the percentage of the GNP that comes to Treasury is almost 20 percent now.

Mr. **Greenstein**. Senator, we could have a long discussion on this. Let me simply say that, sure the revenues are going up now, because the economy is on the upside of a recovery cycle. Business investment as a share of GNP, however, is lower than it was, in the Carter years; and personal savings, which were supposed to go way up, are actually at some of their lowest levels in decades. In addition, the promised supply-side revenue boom did not materialize, leaving us with record deficits. I think you would find that most mainstream economists would view the economic experience of the last few years as largely disproving the supply side claims of 1981 rather than supporting them.

Senator **Symms**. I am glad you said that even though I might not agree with you. There is an article on the subject of this hearing this morning in the Washington Times, which is probably America's finest newspaper, which refers to the "unhelping hand of government." I am glad to have this all on the record and have those of you here that have a different point of view.

I would like to hear from Mr. Gallaway. I only have 5 minutes. We can go around twice this way.

Mr. **Gallaway**. I have a couple of very quick things to say.

Senator **Symms**. About that point?

Mr. **Gallaway**. Well, about a couple of points. One is to correct an erroneous impression about the analysis that I have reported. I realize that Messrs. Gottschalk and Greenstein have not had access to it, but if they will take the time to look at the technical analysis, they will discover that the very factors that they say explain everything are fully controlled for. There is an unemployment rate and an income variable included in every one of the regression equations that generates those poverty-welfare curves. So their claims that we have not adequately controlled for unemployment or general economic conditions are just not true. They are controlled for.

Incidentally, those relationships shift violently in 1972, and I will show you the regression equations.

As to the gratuitous remarks about the Laffer curve, I will debate the validity of the Laffer curve anytime, anyplace, with Mr.

Greenstein. I don't think this is the appropriate forum. He knows not whereof he speaks.

Senator SYMMS. What you are saying is, if I hear your correctly, that the economic growth rather than transfer payment offers the best way out of poverty.

Mr. GALLAWAY. The potential for growth is still there. What is happening is the effects of growth are being masked by the disincentive effects that are generated by the growth in transfer payment income.

Senator SYMMS. What do you expect to happen in 1984?

Mr. GALLAWAY. My expectation, and I assume it would be Mr. Gottschalk's and Mr. Greenstein's also, is that with the fall in the unemployment rate you are going to expect some improvement in poverty conditions. This would be my expectation; it would be fully predicted by the regression models that have generated the testimony I have reported today, because those regression models indicate very strong, statistically significant, relationships between poverty and income growth and unemployment, as well as public aid.

Senator SYMMS. I have just a little less than 1 minute on my 5 minutes, so Mr. Gottschalk and Mr. Murray, if you want to contribute to this discussion, try to do so very briefly.

Mr. GOTTSCHALK. Thank you. I will be interested in reading the study. However, I am skeptical.

What that graph is saying is that when you give a person a dollar of transfer that person will reduce their work effort by more than a dollar. That's the only way you can get Gallaway's result. That is the assertion behind the graph, a dollar of transfer increases poverty because people earn a dollar less. There are, I am sure, over a hundred labor supply studies, probably on the order of 200 labor supply studies. I would like to know how many of those studies show labor supply responses of that magnitude. Is it half? Is it a quarter? Is it 10 percent? Is it 1?

Senator SYMMS. My time is up.

Congressman Hawkins.

Representative HAWKINS. Mr. Chairman, may I first ask Mr. Gallaway what was his answer to the chairman's question on what effect does economic growth have on poverty.

Mr. GALLAWAY. Economic growth, as has been demonstrated all the way along, Congressman Hawkins, has a significant role to play in eliminating poverty. The problem in recent years has been that its effects have been masked by the disincentive effects of the growing levels of transfer payment income.

Representative HAWKINS. Would you say that a decrease in the growth rate in 1985 will increase poverty?

Mr. GALLAWAY. Holding other things constant, yes.

Representative HAWKINS. Your answer seemed to indicate that you are optimistic about decreasing poverty, and yet the economic growth rate is tending to go down, and consequently it would seem to me that would perhaps create somewhat of a contradiction.

Mr. GALLAWAY. No, because I thought I was asked specifically about what I expected for 1984.

Senator SYMMS. In those statistics.

Mr. GALLAWAY. Yes.

Representative **Hawkins**. You did say that you expected the poverty rate to go down in 1985, did you not?

Mr. **Gallaway**. No. I was referring to the 1984 statistics that are about to be released in August.

Representative **Hawkins**. Let's shift away from it then.

In your statement you indicated a new concept of poverty by choice. What do you mean by poverty by choice? Do you mean that individuals choose to be poor?

Mr. **Gallaway**. Well, very simply, there are situations where, at the margin, individuals will have a choice between different income-leisure combinations. Some income-leisure combinations will generate work effort, will be regarded by individuals as superior to income-leisure combinations that involve just the receipt of transfer payment income.

There is a marginal area, an area where these things become roughly equivalent with a sufficient amount of transfer payment aid. You can demonstrate this with some formal orthodox theoretical analysis using indifference curves and the like.

Representative **Hawkins**. Well, I didn't want to get into all of that. I think you are confusing the issue. What we are talking about is not some people; we are talking generally about a class.

Mr. **Gallaway**. You cannot generalize that all the poor will act the same.

Representative **Hawkins**. Are you explaining the great increase in poverty to be one which was done by choice of individuals rather than by economic policies?

Mr. **Gallaway**. Yes. Certain leisure-income combinations that involve transfer payment income and poverty become preferable to other leisure-income combinations. It is a tradeoff between work and transfers. Let's not beat around the bush.

Representative **Hawkins**. Would you say that if jobs were being made available by the economy to individuals they would choose those jobs rather than poverty?

Mr. **Gallaway**. Not necessarily. It would depend upon the relative earnings potential of the jobs and the level of the transfer payment income.

Representative **Hawkins**. What evidence do you have that individuals would choose welfare?

Mr. **Gallaway**. Oh, there is a wealth of evidence, Congressman.

Representative **Hawkins**. What is it? What studies have you made that indicate that people will reject jobs? Because all the studies that I know about say the opposite. What studies have you made that indicate that people would select welfare, as low as it is, in preference to a reasonably decent job?

Mr. **Gallaway**. Welfare or transfer payment income. Let me refer to the classic incident in 1962 where this happened. The Congress passed a piece of legislation which opened up to elderly males the option of retiring with actuarially reduced benefits at age 62. The reasoning was that no one would opt for that unless they were in distress; they would not give up a job and take the transfer payment income because it was too low. The predictions were that 5 percent, at most, would take actuarial reductions. The reality was that 50 to 60 percent opted for early retirement because they preferred the transfer payment leisure-income combination to continuing with their established patterns of work effort. It is the classic case of this at work.

Representative **Hawkins**. I wish you would submit that study to the committee. I don't have time to pursue it, but it is sort of a strange history that you are repeating here, and I don't know the reliability of this, because it is thrown out, and I think it is in conflict with all other studies. Would you submit the documentation of that to the committee so we will have an opportunity to study it?

Mr. **Gallaway**. I will be delighted to.

[The following information was subsequently supplied for the record:]

LABOR SUPPLY RESPONSES AT WORK: THE CASE OF EARLY RETIREMENT

by

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In the 1961 amendments to the basic Social Security legislation, the option of early retirement, at age 62, was extended to include males, as well as females. It was a seemingly minor modification, one that both those who initiated the change and those who administered it felt would have virtually no effect on the system. By way of background, it is important to keep in mind that at the time early retirement was introduced, it was never envisaged as being a truly major feature of the retirement system. Thinking among legislators and the administrators of the Social Security program viewed the early retirement option as being largely a "stopgap" program that would appeal to a relatively few individuals whose employment was interrupted unexpectedly in the years immediately preceding their normal retirement age. In the report of the House Ways and Means Committee on H. R. 6027, the bill that enacted the early retirement option for men, it was stated:[1]

> The provision of benefits at age 62 for men will help to alleviate the hardships faced by that group of men who, because of ill health, technological unemployment, or other reasons, find it impossible to continue working until they reach 65 .... The plight of the older unemployed man is particularly bad. It is, of course, worse during periods of recession and in areas of chronic unemployment. Even with relatively high unemployment there will always be individuals nearing age 65 who will lose their jobs and find it impossible to get new ones. Adoption of this amendment will make the program, to which these people have made contributions over the years in expectation of receiving benefits when they are too old to work, flexible enough to provide a degree of protection for them when they find themselves unable to get work because of conditions beyond their control when they are getting along in years, even though they have not yet reached the age of 65.

This view of early retirement dominated the actions of the Social Security Administration when it came to implementing the Congressional action. For example, in deciding upon the appropriate actuarial reduction in benefits, it was stated by an employee in the Division of the Actuary, Office of the Commissioner, writing in the Social Security Bulletin, that:[2]

> No allowance is made for the loss of contributions that could result from early retirement, but that loss is probably insignificant since early retirement is apt to occur only among those who do not have employment possibilities.

Thus, early retirement was to function as much as an addendum to the social welfare system as anything else, being indistinguishable in intent and function from other forms of public aid to the low income members of society. Then, the first data on new entitlements under the early retirement option became available. In the period August to December, 1961, 57.9 percent of regular currently payable new awards were actuarially reduced and, for the next four years, that percentage hovered about sixty (see Table 1). There was something of a sense of shock and surprise that ran through the various echelons of the Social Security Administration.[3] Rather early on, it had become apparent that there was a massive acceptance by retirees, the great bulk of them with employment possibilities, of the early retirement option.

With the advantage of hindsight, the inaccuracy of the general perception of what early retirement involved is difficult to understand. There were clues available that should have sounded alarm bells. For example, early retirement for women had been put in place beginning

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Table 1

Reduced Benefit Awards Currently Payable As Percent Of
All Currently Payable Regular Awards,
Males, 1961-1965

Period	Percent of Awards That Are Reduced
Aug.-Dec., 1961	58
1962	59
1963	60
1964	62
1965	62

Source: Social Security Administration.

with 1956. In the first year under that provision, 31.9 percent of regular currently payable awards of retirement benefits involved an actuarial reduction. By 1961, over sixty percent of such awards were actuarially reduced (see Table 2). However, this seemed to go unnoticed, largely because the prevailing view of the retirement system within the Social Security Administration was that the absolute level of retirement benefits was inadequate and that hardly anyone would "voluntarily" choose to retire because of the availability of the retirement benefits under the Social Security program. Put simply, the benefits were not perceived as being a part of a complex of sources of income available to the elderly. Thus, the persistence in regarding early retirement as an option that would be exercised only by thise *in extremis*.

Other evidence suggestive of a voluntary retirement response to the presence of transfer payment income was available. For example, between 1947 and the late 1950's, as the retirement provisions of the Social Security system began to have their full impact, the labor force participation rate of elderly (65 years of age and over) males fell from 47.8 percent into the low thirty percent range (31.7 percent in 1959). Again, though, an involuntary retirement interpretation was put on the data, emphasizing deteriorating health, employers forcing workers out of their jobs at age 65, etc.[4] Had the people within the Social Security Administration more properly attributed the precipitous decline in labor force participation among aged males to the phenomenon

Table 2

Reduced Benefit Awards Currently Payable As Percent Of
All Currently Payable Regular Awards,
Females, 1956-1961

Year	Percent of Awards That Are Reduced
1956	32
1957	54
1958	55
1959	60
1960	64
1961	67

Source: Social Security Administration.

of voluntary retirement, stimulated by the presence, at the margin, of retirement benefits under Social Security, they might have been more alert to the possibility that early retirement would induce a relatively large number of actuarial reductions.[5]

The early response to the introduction of the early retirement option was not a temporary thing. If anything, as the years have passed, it has become more, rather than less, popular. For example, in 1970, sixty percent of all old age benefits awards moving to payment status were actuarially reduced while, by 1980, that percentage had risen to 70 (see Table 3). As a consequence, the proportion of all retired worker benefits that were actuarially reduced rose from 39.9 percent in 1970 to 57.9 percent in 1980 (see Table 4). The relative handful of retirees opting for an actuarial reduction that had been envisaged by the designers of early retirement had grown to more than ten million by 1980.

As the result of the rising popularity of the early retirement option, the labor force participation rate among men in the immediate pre-age 65 years has been on the decline. This is manifested in the behavior of the labor force participation rate for males in the age group 55.64, which has fallen from 86.8 percent in 1960 to about seventy percent currently.[6]

The parallels between the early retirement case and the general poverty-welfare benefit nexus are striking. In both instances, we have

Table 3

Percent of All Awards Moving to Payment Status
That Are Actuarially Reduced,
1970-1980

Year	Percent of Awards That Are Reduced
1970	60
1971	63
1972	63
1973	59
1974	66
1975	68
1976	71
1977	76
1978	73
1979	71
1980	70

Source: Social Security Administration

Table 4

Number of Retired Worker Benefits in Current Payment With and Without Reduction For Early Retirement, Aged 65 and Over, 1970-198

Year	Number of Beneficiaries 65 and Over	Without Reduction	With Reduction	Percent with Reduction
	(thousands	of	Persons)	
1970	12,124	7,282	4,842	39.9
1971	12,594	7,250	5,344	42.4
1972	13,115	7,236	5,879	44.8
1973	13,804	7,344	6,460	46.8
1974	14,328	7,263	7,065	49.3
1975	14,865	7,219	7,646	51.4
1976	15,384	7,303	8,081	52.5
1977	15,964	7,265	8,699	54.5
1978	16,497	7,220	9,277	56.2
1979	17,064	7,379	9,685	56.8
1980	17,566	7,387	10,179	57.9

Source: Social Security Administration.

programs designed to transfer income to people who find themselves, "involuntarily", in economic distress. But, in both cases, large numbers of people who are not the intended beneficiaries of the legislation in question avail themselves of the opportunities created by these programs. There is a lesson to be learned from these experiences.

Footnotes

1. H. Rept. 216 (87th Cong., 1st sess.), p. 5.

2. Marice C. Hart, "Old-Age, Survivors, and Disability Insurance: Early Retirement Provisions," *Social Security Bulletin*, October 1961, p. 9.

3. This is a personal observation based on the author's experience as an employee of the Social Security Administration at this very time.

4. For a discussion of this issue, see Lowell E. Gallaway, *The Retirement Decision: An Exploratory Essay*, Social Security Administration, Research Report No. 9 (Washington, D. C.: United States Government Printing Office, 1965).

5. The wish was father to the thought, though, and the available evidence was ignored.

6. United States Department of Labor.

Senator SYMMS. Thank you very much, Congressman Hawkins. We will make that part of the record and get it in as part of that answer.

Congressman Scheuer.

Representative SCHEUER. Thank you very much, Mr. Chairman.

Mr. Chairman, I am having great difficulty understanding what is being said here. It is largely the incredibly poor acoustics in the room, and I hope, with all due respect, the Senate will take the responsibility for doing something about it.

Senator SYMMS. I can tell you one thing. They are not all agreeing. I can't hear very well either, but I can hear that well.

Representative SCHEUER. I am going to just use my 5 minutes to ask some questions, and I would ask unanimous consent that members may submit questions in writing also and that we hold the record open for a week or 10 days to get answers from all of the witnesses.

Senator SYMMS. Without objection, so ordered.

Representative SCHEUER. I am going to ask all of the witnesses a few questions, and I hope to get the benefit of their indulgence and patience.

To follow up on Congressman Hawkins' questions, I think implicit in his questions there is a problem in the phenomenon known as structural unemployment. It is perfectly obvious that we have a residue of unemployed black urban teenage youth, to put the problem in its most stark form. It seems impervious to changes in the economy, whether it goes up to whether it goes down.

There have been estimations that as the percentage and number of jobs in our economy that require little or no literacy and numeracy skills goes down this underclass as it is developing in going to create incredible problems in our economy and in our society. Agonizing problems.

What do we do with a generation of kids who can't seem to connect with a job? Especially with the prospect in mind that the kind of low skill jobs that the few of them have are going to decrease virtually to the vanishing point in another decade or two. How does society answer that problem of structural unemployment and a generation of kids graduating from high school, many of them having completed 12 years of elementary and secondary education, without having achieved numeracy and literacy skills?

That's one question, a very simple question. I will get to some complicated ones.

I was on, and Gus was on, the Education and Labor Committee in 1965 at the time we passed the poverty program. Gus and I were veterans of that great struggle. We thought we were doing something very noble and wonderful. I think in some respects we were and we did.

Can you tell us from your experience, from hindsight, from Monday morning quarterbacking, what was good about the poverty program and what wasn't so good? What worked and what didn't work? What are the lessons we should learn from it? What are the elements that we cranked into that program that produced success? And what are the elements, when you find them in the poverty program, that produced waste, fraud, mismanagement, ripoff? And all of us know that there are those elements.

I think the Congress probably—well, no question about it. We were too slow in providing the oversight in those programs that would have corrected those mistakes. We treated our failures like our successes, and we didn't analyze them and cut out the elements that produced failure, and we treated our successes as we treated our failures. We didn't identify the programs that were really producing pay dirt and say, boy, this is a shining light, and add more resources to that and shore them up and extrapolate them and institutionalize them in our society. We didn't. Otherwise the school system would extend down to 2 years old.

I went to a Head Start Program over 60 years ago. We didn't call it that then. We called it prekindergarten or something like that. Head Start worked very well. It didn't work so well when there wasn't a good followup program. That is perfectly self-evident.

Why haven't we institutionalized to a certain extent the regular public school program down a couple of years?

It always makes me very suspicious when people say, oh, people at the State and local level know what is best. If people at the local level knew what was best, why don't all those school board members and school board chairmen say, well, Head Start apparently is a fantastic program? How come all those middle class and rich guys, all those Congressmen down there, most of whom had prekindergarten, kindergarten, nursery school when they were little infants, how come we haven't given that to all of the kids in our society?

What have we identified as the critical elements that produce either waste, fraud, abuse, failure, or success? I think if we can distill in a scientific way those elements out of 20 years of experience with the poverty program we will have really done something for our country. I hope all of you will take the time and give the thought to give us answers to those questions.

Senator SYMMS. Thank you very much, Congressman.

Senator D'Amato.

Senator D'AMATO. Thank you very much, Mr. Chairman. First let me commend you and this subcommittee for undertaking these hearings. There is much in the way of distressing information that we learned.

I am wondering if the panel wouldn't attempt to take a moment or two and respond to Mr. Murray's presentation and indicate whether you agree, disagree, and what might account for, as it related to the employment gains, the incredible gains from 1960 to 1980 that apparently blacks made in the labor market as it related to high-skill jobs. And then his account, if you don't agree with his analysis, that during the same period of time, particularly 1965 to 1980, as I read the graphs, the tail-off in this. Do you agree or disagree with it?

We will start with Mr. Gottschalk. What interpretation would you put to that?

Mr. GOTTSCHALK. Let me start off by saying that the last two speakers have identified what is the hardest problem, which is what do we do with black youth. How can you get black youth back working? I think that is a tremendously important social problem; I think it is the most difficult problem. I work in this area. I know that there are no simple solutions to that problem.

Senator D'AMATO. That is in essence what Mr. Murray's graphs really point to. The bottom line is, how do we create the atmosphere, the opportunity, et cetera, to involve young unemployed blacks in the cycle of life, in the work ethic?

Mr. GOTTSCHALK. I think that Charles Murray and I agree on the facts. I think we disagree on what should be done. Certainly cutting out AFDC for female head of families seems to me to be just simply swatting in the wrong direction.

I think we do have some successes. They are very expensive. The Job Corps is a successful program. The evaluations of that program say that it works. The problem is it is an expensive program. The cost-benefit ratio is favorable, but you have got to be willing to put in a lot of money.

I think that those kinds of programs are exactly the kinds of programs which you should be building on.

It turns out that the evaluations do have something in common. Women and youth are people who you can help if you are willing to spend sufficient amounts of money. As I said, you spend a lot, you get a lot in return. The question is, are you in Congress willing to spend that kind of money for future returns?

Senator D'AMATO. What about State and local efforts as well, particularly in the area of the Job Corps kind of program?

Mr. GOTTSCHALK. I would be perfectly glad to see local governments do it. I agree that they haven't been doing it. They are strapped for funds. But I have absolutely no ax to grind on which level of government does it.

Senator D'AMATO. Given the tremendous amount of money that local governments in AFDC and other programs pay—we may wind up paying about 50 percent in my State—wouldn't it behoove them also to become involved more in the creation of these kind of Job Corps opportunities? They're really training programs; they're really life experience programs. I think they pay great dividends.

Mr. GOTTSCHALK. I am on record as advocating an expansion of work programs at both the State and local level. I think it is the way to move. I think that the American public has shown that it prefers to give people work than to give people transfers. If that is the way people want to help other people, that seems to be perfectly reasonable.

Senator D'AMATO. It's almost necessary, isn't it? How do you break the poverty cycle?

Mr. GOTTSCHALK. However, we should be careful not to have overly ambitious goals. The evidence is that when you provide people with employment a few of them aren't helped at all; most of them are helped a little bit; some of them are helped a lot. What we should recognize is that the function of this program is to employ this person today, give this person a job today, that that is the end product of the program.

Senator D'AMATO. I might take slight exception to what you said. I don't think that is the answer. I defer to my colleagues in the Congress, Congressman Scheuer, who has helped initiate some of these programs, but I think one of the reasons that the Jobs Corps is so successful—by the way, I don't think most Americans know what we are talking about—is you actually take that youngster out of that environment.

We have complained for so many years that if the youngster goes back to the ghetto with his pals and his buddies in these circumstances where, if anything, he is ridiculed, if he gets into a regular schedule, he's never going to do it.

If you take him out of that setting for 3, 4, or 5 months, he begins to become part of the system of rising at a particular time, going to an appointed task; he begins to take on basic skills, et cetera; if they begin to train him in areas where there are job opportunities you will find a 70- or 80-percent success ratio in them going out and returning back to the private sector and holding a job with that training that gives them that ability. I think that is the finest investment we can make.

Mr. GOTTSCHALK. It's expensive. But I agree with you.

Senator D'AMATO. Mr. Chairman, my time has passed. I would be interested in hearing Mr. Murray respond. He decided not to give us specific suggestions for dealing with poverty today, and I am wondering if at some point in time he might address himself to what are those specific suggestions that he did not include in his statement.

I can't ask you to do it on my time, but I would certainly be interested in getting your suggestions, because we need some help.

Thank you, Chairman.

Senator SYMMS. Mr. Murray, do you want to make a comment on that? You can do it on my time, and then I have a question I want to ask.

Mr. MURRAY. I think education and training is the thing that we can do that can do a lot of good.

Senator D'AMATO. How about the Job Corps? Are you familiar with the Job Corps?

Mr. MURRAY. Yes; I am familiar with the Job Corps.

Senator D'AMATO. What are your thoughts on that?

Mr. MURRAY. I would say that our training programs have handicapped themselves in a couple of specific ways, and I think we could change that fairly easily.

One is, let's start giving the first place in line not to the kid who is a drug addict, not to the kid who has been delinquent, not to the teenage mother. Give the first place in line to the kid who is holding down a job on the loading dock, who has already demonstrated he has invested in himself; he wants something better; he's the kid that we ought to be paying more attention to.

Senator SYMMS. I think Senator D'Amato touches on an important point; the young people that are less advantaged need the opportunity to have a job, have the dignity of a job, have the vision of upward mobility where they feel like they are going to have a chance to break out of that disadvantaged position. On the other hand, there might be some people that live in those areas that are in a nuclear family that would say, "Don't worry about us. We're not disadvantaged. We're holding down a job, we're happy, we have our place to live and our family together, and you do-gooders get out of the way and leave us alone."

What is wrong with on-the-job tax credits for companies to encourage them to hire these people and have on-the-job training? Is it the unions that block this all the time? Is it just the politicians in general who would rather control the program? Wouldn't the market be more efficient if we would encourage the private sector to privatize the whole Job Corps in some fashion even if we had to put it on a voucher system?

Mr. **MURRAY**. My general response is I think the private sector does a better job with these kinds of things. I think if the private sector runs these programs they are much more likely to connect rewards with behavior, which is something the Job Corps did very badly: The less you went to class in the Job Corps the harder they tried to keep you in.

Senator **SYMMS**. I had some personal experience with the Job Corps before I got in politics, because we had an office close to where my place is. We were desperately looking for apple pickers. I went over to the Job Corps and had some of the Job Corps employees pick apples on a part-time basis.

I said, "Why don't you just bring a crew over here of about 40 or 50 of these young men and we will teach them how to pick apples and they will make from $25 to $40 a day?" This was in the middle 1960's. "They can put the money in the bank and then they will have that savings account and they will have that pride of having it."

The Government wouldn't let them do it because it interfered with the bureaucratic program. We could never get them the jobs.

In every fast food place in northern Virginia right now there is a sign up that says, "Help Wanted." Wouldn't it be to the advantage of our society to hire the unemployed young people in the District of Columbia, even if the tax credit that was paid to the company paid their transportation costs or something, and to let them go down to northern Virginia? They can ride the bus down and work.

Mr. **MURRAY**. I am afraid that what you find happens when you do that is 2 weeks after you have provided the job, cajoled somebody into taking a job, that you have a large number of those that aren't there anymore.

Senator **SYMMS**. Are you saying the reason they are not there is because life is not too bad on the welfare program, or what?

Mr. **MURRAY**. Because of a lot of reasons of which that is one. You have a phenomenon which is simply a factual one. You know, when you have the line around the block applying for the 30 jobs that are open, and it gets covered in the evening news. Well, you can go back to that place a few weeks later and ask of those people who stood in line, how many are still in the job? You find relatively few.

The reason is, I think, that we have misconceived what is going on here. It is not that you have the lazy bum out on the street that doesn't want to work. He does want to work. He has some image of that. But he also doesn't have a lot of the other things going for him he needs. So he gets a job and it's a tough, dirty job, and it's not very much pay and his friends tease him about it. So he says, well, I'm going to quit that one, but I'm to get another job later. So he quits.

But what happens is, in the critical age from 18 to 24, let's say, you have that sporadic on-again-off-again behavior, when what you need to have at that point for people with little education is a steady accumulation of a job record so they get a little bit better as they go on, they get on-the-job training, they get a chance to do something better, they get into a more secure industry, and by the age of 24 they are part of the work force.

What we have done with our welfare programs is not created a lot of contented lazy bums; what we have done is created short-term decisions at that young age which locks them into poverty. They reach that 24th birthday and they have nothing to show an employer, they have no work habits, they have no skills.

Senator Symms. So what is the answer? I've never met anybody that wanted to be poor.

Mr. Murray. Absolutely.

Senator Symms. Most people I've met want to better themselves. Human nature is that one would prefer to do that. If a guy makes $5,000 a year, he wants to make $10,000; if he makes $10,000, he wants to make $20,000; if he makes $20,000, he wants to make $40,000, and so on. What is the answer to that? Is it the family problem? Is that what you are saying?

Mr. Murray. The way to make him hold on to that job that is going to lead to something better longer down the road is a necessity. I am not, by the way, talking about a culture of poverty. I am asking us to think about things we did when we were 17 and 18 years old.

Senator Symms. Lawrence Welk said we should repeal the child labor laws. Would you agree with that?

Mr. Murray. I don't want to go on record with a snap answer to that.

Senator Symms. I didn't mean to put you on the spot. He made quite an argument on television one time that we don't get people started in the habit of working at a young enough age. Farm kids all do because they all go to work on the farm, but there are less and less of us from the farm nowadays.

Mr. Murray. When I say "necessity" I mean it. The thing that creates respect for low paying jobs, the thing that creates the atmosphere in the community that you are proud of Johnny because he holds a job and you are not proud of Dick because he is not holding a job, is the fact that holding a job is absolutely necessary to the survival of the family and the community, and that implies getting rid of a vast range of support programs, and then we are right back in the problem we asked earlier: But what do you do with the people that are already in that situation?

So if I am doing no more than reciting a dilemma, I apologize, but there are no fixes short of major reform in the way of creating greater necessity for young people to get in the work force and stay there.

Senator Symms. I think my time is up. If there isn't someone burning to say anything to answer that, I will yield to Congressman Hawkins.

Mr. Greenstein. I would just say that I think that the approach you are suggesting is not an alternative to the Job Corps. I think the Job Corps does some very important work and is successful with a certain portion of its enrollees who, in the absence of that, if you simply do the tax credit you're talking about, aren't going to show up. After Job Corps they may. I think that the kind of idea that you are suggesting is something we really should explore.

Senator Symms. Maybe merge them?

Mr. **Greenstein**. They could be two separate elements.

Senator **Symms**. What I mean is be more flexible with the Job Corps, not be so hidebound to the regulations that emanate from them.

Mr. **Greenstein**. I am actually saying something different. I am saying you can leave the Job Corps, or you can expand it, which I would favor. The Job Corps is never going to cover more than a very small fraction of the youth we are talking about. part of what we need to do is not only create more incentives for employers to hire these people, we have to create more jobs for these people. There may be a bunch of jobs in northern Virginia and there may be jobs on your apple farm, but there are many areas of the country where there aren't enough jobs for those people.

On the one hand, the past experience shows mixed failure in using tax credits in the private sector to actually get them to create more low wage jobs, but I don't think we should write the effort off for that reason. We have to find a way in many areas both to create more low-wage jobs and push these people into them. I don't think we can simply assume that all the jobs are there.

The other thing I would say is we also need to improve the incentives, the rewards from taking these jobs, and one of the problems right now is how heavily we tax people below the poverty line that take low-wage jobs.

I do think that the part of the President's tax program that deals with eliminating income tax for people below the poverty line and expanding the earned income tax credit is very important. Unfortunately, the one group under the President's program that still pays taxes even though they are below the poverty line are single individuals like young males that we are talking about.

I would like to see us find some way to restructure the earned income tax credit so we can both reward these young individuals who work more as well as larger families, which would be profamily. If you are a large family, you can be below the poverty line and not get the earned income tax credit because it is not family-size conditioned.

I think the evidence is strong, as Peter Gottschalk says, that public assistance isn't the big factor here. Most of these black youth we are talking about are not eligible for public assistance in the first place. They can't go on AFDC.

We need more job creation strategies; we do need to push these youth more into jobs; we need to stop taxing them if they take jobs; we need to do a variety of things, and we need to do a lot of experimentation. We really don't know all the answers.

Senator **Symms**. Mr. Gallaway.

Mr. **Gallaway**. Yes, one comment on what Mr. Murray was saying. He spent a good deal of time talking about the elite wisdom and its view of the poor and the double standards with respect to the poor. I think we tended maybe to pass that over, and this may be the most critical way in which you can change the environment surrounding being poor.

It is fashionable, particularly among intellectuals, to perceive of the poor as a group that somehow needs the loving care of those intellectuals and their political leaders; that they are incapable of functioning on their own without that care. It's a very patronizing view of the poor. And after a while people do start to believe it, and they wait for the patronizing care, and in the process normal incentives are destroyed. And what it leads to is poverty by choice.

Senator SYMMS. Do you mean poverty by choice or taking a check from a transfer payment instead of a job?

Mr. GALLAWAY. You have choices between alternatives. It doesn't mean that they are nice alternatives, but you still have to make a choice between those two possibilities. The fact that you elect one over the other means that it is preferred to the other, but that doesn't mean that it is necessarily a pleasant condition.

What we are doing with poverty by choice is we are playing with the incentives.

I am intrigued that some of my fellow witnesses here are willing to talk about incentives in some contexts, for which I applaud them, and then deny that they work in other contexts.

The essence of the problem is the way we structure incentives. Even though we create a situation that you or I might not opt for, it may be a more preferred one. Admittedly, it may not be a pleasant condition, and it may become officially recorded as poverty. That is poverty by choice.

By no means should this be construed as passing judgment on the poor. If we are doing anything here, those of us who argue this position are passing judgment on the political leaders of the society who have created a set of alternatives which lead people who are making normal economic decisions to function in this fashion. There is no blame to be attached to the poor. They are behaving just as they ought to behave under those conditions. If we don't like the outcomes, the only thing we ought to do is look in the mirror tomorrow morning when we shave or put on our makeup, whatever, because there is the source of the problem. The source of the problem is not the poor. They are behaving in response to the sets of incentives that we have structured for them.

Senator SYMMS. Thank you very much.

Congressman Hawkins.

Representative HAWKINS. I find the statement so preposterous that it is very difficult to even frame a question.

I just picked up a page from the Children's Defense Fund, which I think is very significant. There are 13.3 million poor children in America; 8.5 million of them are white; 3.3 million children have fallen into poverty. So this is not a problem of a few black youths.

This subject always gets down to what I would say is 500,000 or 600,000 young black people. We could put them on jobs tomorrow and they would accept them, I am willing to venture, if we offered them jobs tomorrow at least at the minimum wage. We could do that for $1 billion. But we aren't going to do it in this session, it is pretty obvious. Anything that costs as much as $100 is eliminated.

So we are dealing with a problem not of a few minorities, a few black youth; we are dealing with a problem that affects at least 13 million unemployed people in America. We are dealing today with a poverty situation in which in the last 10 years we have created over 13 million poor people by governmental policies. They didn't just happen; there wasn't something magic about it. We have been cutting back for 5 or 6 years. We started under President Carter, a

Democratic President, to cut back on programs, employment and training programs.

Today we are talking about the Job Corps. We are cutting back on that as well. The President a year and a half ago said it was a wonderful program. He now advocates eliminating it. So what we are doing, we are eliminating employment programs; we are cutting back on jobs. And then we turn around and say individuals choose poverty by choice.

I think it is well demonstrated in the most conservative newspapers whenever jobs have been available—recently in Baltimore, MD, they offered in the neighborhood of a thousand jobs and about 20,000 people stayed up all night in the cold trying to get one of those jobs, and that has been duplicated all across this country. And to say that individuals don't want jobs when we are deliberately eliminating jobs and we have been budget cutting for at least 6 years, if you want to say something has failed, certainly that has failed, because poverty has gone up; 13 million have been added to poverty. So we must have done something wrong.

Between 1959 and 1969 poverty was decreased by 40 percent, and yet we seem to have trouble even among ourselves in trying to say what has failed and what hasn't failed.

Certainly Head Start has been one of the successful programs. It took us 15 years to evaluate and say so. In the meantime, some of these black youths that we are talking about today didn't get Head Start. Chapter I, compensatory education, certainly has proved successful. I haven't heard anyone attack that. And yet we are reaching only about 4 percent of those who could benefit from it.

We are also eliminating and seem to be saying the Job Corps hasn't worked. Well, the ones who are operating Job Corps are IBM, Xerox, General Motors; those are the ones, the private sector, who happen to be operating Job Corps, and it has been evaluated as returning $1.42 for every dollar we invested. That's a good investment. Yet I am quite sure, Mr. Gallaway, you probably would oppose it. I don't know Mr. Murray's position. I haven't read his book. But he certainly has challenged me. I am going to read his book. That is one copy you are going to sell. I am going to buy it, because I would like to read it.

Mr. GALLAWAY. I commend it to you. It's a very fine book.

Representative HAWKINS. It's not a difference in intellect here; it's a difference in courage and the ability of the people to say we are going to put Americans to work as other countries have done. Transfer payments are not used on other countries that have done a good job. Japan doesn't have youth unemployment. Why is it they can solve the problem and we can't? Scandinavian countries have done an excellent job in employment and training programs. And what is more American than to say the work ethic means that we are going to provide jobs for these people and not create unemployment as we did in the 1981-82 recession and threw people out of jobs?

So I think we need a new approach to this problem. I think we need to look at what has worked and what hasn't worked and build on it.

As Congressman Scheuer says, some of these programs did work, and why don't we go back and pick those up and not have this fatalistic attitude or this elitism that I've heard expressed today that only those who are qualified should get the jobs, they should get the jobs first and we will write off those we call disadvantaged, those that we disadvantaged because we did not provide the education and training for them. It wasn't by choice. They didn't have the choice. It was those who made these policies at the State and Federal levels that determined that there would be some unemployed, and I think we have to begin where the trouble lies.

Mr. GALLAWAY. Could I respond briefly?

Senator SYMMS. Certainly, go ahead.

Mr. GALLAWAY. I would commend to Congressman Hawkins the programs that have generated 8 million new jobs in the United States in recent years and have carried the employment ratio in the United States to an all-time high.

Senator SYMMMS. Do you want to make a comment on that, Mr. Greenstein?

Mr. GREENSTEIN. Congressman Hawkins, I would certainly agree with what you are saying. We only serve 18 percent in Head Start. Title I often gets criticized; it has positive impacts in elementary school and then some of that seems to fall back in later years. You can look at that two ways. One is saying, well, the results aren't long lasting, so we should cut title I. I think it could and should be looked at another way, which is that we need to make more efforts in junior high school and high school. Most of the title I money goes just to elementary schools and there it seems to work.

It does seem to me that if you put the employment and training programs and Head Start and title I together, they are very important, and yet they leave us well short. They enable many of the people they help to compete more effectively, but if the total number of jobs available for low income doesn't enlarge, then what we are doing to some degree is reshuffling the deck on which people from disadvantaged backgrounds get the jobs, which I think means that we have to supplement as you've proposed for years.

Head Start and title I and training by themselves are not going to yield as dramatic results as if we coupled them with some job creation. If we don't have the job creation, then we are going to say the training programs didn't work, they were failures and so forth. The training programs will not yield that much if, after we finish the training, the jobs aren't there.

The one other point I would make is that I really think that while a lot of what Charles Murray said about looking at the charts on the jobs for youth in the 1970's has merit, it is not the whole story. The other side of the story is that in many ways, certainly in the period up until 1970, the principal source of low-wage jobs for black youth was wiped out. If you go back to 1950, the overwhelming source of jobs for black youth were agricultural jobs in the South which were wiped out, and there was not an equivalent replacement.

We also forget the fact that when more youth go to school, particularly black youth, or go into the military they are not counted in the labor force anymore, and that tends to lower the employment ratio and make things look somewhat worse than they otherwise might be.

No one has mentioned today the lingering effects of discrimination. I would suggest that it is somewhat different to hire a black youth to work in a field or to work in a factory than to work in offices, and we are increasingly working in services and offices. I would suggest that one of the factors that lingers here very much is the factor of discrimination.

Let me stop there.

Representative HAWKINS. Let Mr. Gottschalk comment, if it is OK with you, Congressman Scheuer.

Representative SCHEUER. Sure.

Mr. GOTTSCHALK. I will take literally 1 minute.

Let me again say that I think the job strategy is the right strategy. Right now there are some evaluations of workfare. What people are finding is that welfare mothers are perfectly happy to earn their checks, that people do not object to having to work in order to be paid.

The one suggestion which I would hope you would at least consider is to make a very simple change in the workfare program. Instead of saying you have to work to earn your check, you say you can work, and if you want to earn more than your welfare check, all power to you. In other words, just a simple change in that piece of legislation which goes from saying you only earn up to your welfare check to saying you can earn all you want would make a substantial difference. I think that what you would find if you ran that experiment would be that people want to work and they want to earn more than what they are getting.

I agree with you, Senator Symms, that every study has shown, and Charles Murray agrees, that welfare people have exactly the same aspirations that you and I have. You have to give them the opportunity, and I think that the legislation which Congressman Hawkins has advocated is exactly the right way to go.

Senator SYMMS. Thank you.

Congressman Scheuer has another round of questions to ask. I have a few questions I am going to submit for the record. Then we might try to allow each one of you a minute or two to summarize if you had a point you wanted to make, and then we will end the hearing.

Congressman Scheuer.

Representative SCHEUER. I am going to just expand a little on the questions that I am hoping all four of you will address yourselves to.

I asked before what can we learn from the experience of the past with the poverty programs and the other experimental programs. How can we take a surgeon's scalpel to those programs and identify the elements that produce success and identify the element that produce failure and rebuild the programs building on that experience?

I would like to add a couple of other things. Where do we intervene, let us say, in the human life cycle. Do we try and get the kids very, very early at the Head Start age and concentrate resources at the Head Start and follow through at elementary and secondary education, hoping that we will have done the job of giving the kids all the literacy skills they need to enable them to have marketable skills?

I think we have to assume that we can do anything but we can't do everything. Job Corps is expensive. I think that somebody just said that we can't afford to put more than a very small percentage of the kids of secondary education years or postsecondary education years into the Job Corps. I think we are going to have to make some tough decisions on costs and benefits. Where do we spend our available funds to get the biggest bang for a buck in enabling these kids to make it in the private job market?

I think most of us have not held on to the hope that the Government as the employer of last resort can be the answer to joblessness.

I think most of us feel that somehow or other we have to enable these kinds to compete for jobs that the private sector is producing. Given the trends and the kind of jobs that the private sector will be producing, and it seems to me we have to take that as a given, what do we do with the cohorts of young people who are coming into the job market every year from now until the end of the century? Where do we intervene specifically to break the cycle of joblessness, to break the cycle of poverty?

I think these are the kind of questions that would be extremely helpful if you could address yourselves to them.

Thank you.

Senator SYMMS. Thank you very much, Congressman.

I want to thank all of the witnesses and the Members of the House and Senate that participated in this hearing this morning. We may have a few more questions, as I mentioned, to submit for the record.

If you all want to have 1 more minute each, why don't we just go in the order that you originally testified, starting with Mr. Gallaway. Try to keep it as short as possible, because the chairman has another meeting that started at 12 noon.

Mr. GALLAWAY. I think the analysis that we presented pretty well stands as it is. If we pursue the strategy of transfer payment income, we are going to reach a point beyond which the disincentive effects are going to overwhelm the direct income enhancing effects. It's consistent with economic theory; it's consistent with the data; and I think we are clearly well into that stage now.

Senator SYMMS. I might just ask one little question on that. Mr. Murray made the point that he didn't even advocate trying to worry about it right now because the consensus in the United States is not there. The old saying is if you tell a story often enough that after a while people begin to believe it. If we continue with this, does it do any good? You are the first people on the horizon that have raised this type of controversy.

Mr. GALLAWAY. I think Charles Murray may be a little pessimistic, because the consensus that I suspect he talks about is the consensus within the Beltway surrounding the Capital of the United States.

Senator SYMMS. Like I always say, within the 10 square miles surrounded by the reality of the rest of the United States.

Mr. GALLAWAY. Out there in the reality of the rest of the world, if I were to go around and market the results that I have talked about here most of the people I would talk to would look at me and say, "You mean they pay you good money to reserch the obvious? I knew that. So tell me something new." But there is something peculiar about the mentality of this city.

Senator SYMMS. It may even go deeper than that. The only way we are going to win this argument and actually really help those disadvantaged people is that the people who believe in private ownership and its moral and humanitarian efficacy have to out humanitarian the humanitarians in the presentation of the facts.

So I compliment you for your answer, because there isn't anybody in this room that wants to have their fellow citizens in a state of poverty. It's just a question of what is the best way to deliver them from that state of poverty.

I think also there is an assumption in the general liberal thinking that somehow if one makes $20,000 a year, anybody that makes $18,000 is less advantaged. Now some of those people are not that unhappy in many cases and don't feel like they are being put upon in some instances where they do have families and homes and an opportunity to make it on their own.

Did you want to have any comments to close, Mr. Gottschalk?

Mr. GOTTSCHALK. Just to reiterate that the place where the war on poverty went astray was in ultimately relying on transfers. Transfers work; they do reduce poverty; but thet don't necessarily create self-sufficiency. The way to move is in job creation and programs like the Job Corps.

Again let me reiterate that something where you and I may agree on is that workfare is something which one can build on, and I would seriously suggest that people look at that progam and make the one very minor change I have suggested.

Senator SYMMS. It is the old saying that you shouldn't give a guy fish, instead teach him how to fish. You have to teach him how to grow it or how to make it so that he can in fact carry on after the transfer program stops. It is supposed to be a stepping stone toward employment, because the ultimate dignity for all human beings is to be able to work. That is why we are here on this Earth, to work.

Mr. Greenstein.

Mr. GREENSTEIN. Mr. Chairman, let me take your statement that everyone wants to reduce or eliminate poverty one step further. I think probably all of us at this table would agree that we would like to diminsh reliance on welfare. The question is how you do that. I think the absolutely wrong way to go is simply to cut out the benefits. We are just going to impoverish more children. I think there is an alternative way to go, and it has a number of parts to it.

First, building on the President's proposal, we should reduce taxes and expand the earned income tax credit, which is a direct work bonus for low-income people who work.

Second, we have to do more in the area of jobs programs. I don't think that necessarily means that the Federal Government is an employer of the last resort, but it has to include job creation that includes, as you suggested, providing incentives to employers to create more jobs and hire more low-income people. We have to advance strategies of that sort.

Third, we probaly need to further to toughen the area of child support collection both as an alternative way to get income to low-income mothers without going into the welfare system, and as a way of encouraging more discipline and responsibility on absent fathers.

Fouth, when we finish with those steps we are going to be left with a number of low-income families with children who are poor who need assistance and transfer payments. For those families we ought to have a national minimum benefit that is tied to inflation so that they don't live at 10, 20, or 30 percent of the poverty level and we don't keep pushing poor children in those families deeper into poverty.

That is an approach, I think, to reduce both proverty and reduce reliance on welfare at the same time. It may entail spending some additional Federal funds, but I think we should recognize that poverty programs are only 8 or 9 percent of the Federal budget now. I am all for cutting a number of other parts of the domestic budget but not the poverty program area, although we may need to spend the money in a a somewhat different fashion than we currently do.

Senator SYMMS. Thank you.

Mr. Murray, I will give you the cleanup spot for the day.

Mr. MURRAY. Very quickly, I think that we have to recognize that there is no painless way to break through the cycle that we have been talking about this morning. The choices that we are going to have to make in society are going to have to be ones where we, the affluent folks who have been paying the bill, stop taking comfort in how hard we are trying to help the poor by being compassionate, and we are going to have to adopt solutions which will cause some pain, but we are also going to relieve a great deal of pain in the process. Until we are ready to make those hard choices, I am afraid the consensus out there is to cut budgets by 10 percent. The consensus out there is not to confront the really hard choices and to make the major changes that are going to be required to make a start on this problem.

Senator SYMMS. I thank all witnesses and thank all the Members of Congress who participated this morning.

The subcommittee is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following additional written questions and answers were subsequently supplied for the record:]

RESPONSE OF LOWELL GALLAWAY TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE SCHEUER

Questions

1 Cash plus in-kind transfers were about the same in 1977 and 1983. Yet, the poverty rate, as you know, has increased from 11.6 percent to 15.2 percent. If Murray's thesis were correct, it should have gone down. How do you explain this phenomenon? Do you believe that the increase in unemployment from 7.1 percent in 1977 to 9.6 percent in 1983, and the real decrease in benefits could explain the increase in the post-transfer poverty rate?

2 Dr. Gallaway argues on page 4 of his testimony that social welfare programs have created "a sub-class of the American population that is detached from the mainstream of American economic life." That statement implies that a permanent population pool depends upon welfare for its sustenance. How do you explain the close correlation of increases in poverty with the overall performance of the economy? Indeed, when unemployment rose as it did in 1981 and 1982, so did the poverty rate. It would seem that the less fortunate in our society are indeed in "the mainstream of American economic life" because they are the first victims when things turn sour. Do you agree?

3 How long do most AFDC recipients stay on welfare? Would it seem to you that welfare is not the "trap" Mr.Murray implies; rather, the President's "safety net" is a better metaphor?

4 As you know, poverty among the elderly has declined as programs, like social security, which unlike AFDC is indexed to the rate of inflation, protect the aged poor from the perils of poverty. Is this something you regret?

5 What is the significance, in your opinion, that while poverty among the elderly, according to the CRS-CBO study Children in Poverty declined from 24 percent in 1970 to 14 percent in 1983, it has increased in children from 14.5 percent to over 22 percent in 1983?

6 According to the new CRS-CBO study Children in Poverty more than one-sixth of all poor children, 2.5 million, had at least one parent employed year-round at a full-time job? What in your opinion is the significance of this fact?

Lowell Gallaway's Answers

Replies to written queries for The War on Poverty - Victory or Defeat?, Hearing before Subcommittee on Monetary and Fiscal Policy, Joint Economic Committee of the Congress, June 20th, 1985.

The first two questions posed involve the issue of the relationship between poverty rates and general economic conditions. The standard argument is that the poverty rate is reduced by increases in per capita real income levels in the economy and increased by higher unemployment rates. Here, I refer you to the technical submission, "The 'New" Structural Poverty: A Quantitative Analysis," which demonstrates that over the interval 1953-1972 there is a powerful relationship between the poverty rate and general economic conditions. From 1973 through 1983, though, that relationship disappears almost completely. The primary reason for this is the disincentive effects associated with increasing amounts of transfer payment income. These operate to obscure the relationship that existed earlier. In fact, once the impact of variations in transfer payment income is controlled for, statistically significant relationships between poverty and measures of general economic activity emerge. Thus, the specific answer to the first question is that changing economic conditions contribute to the rise in the poverty rate between 1977 and 1983. However, that does not invalidate the "public aid" hypothesis. It is operative in addition to the impact of overall economic conditions.

Might I add at this point that I am puzzled at the resistance to the "public aid" hypothesis. There appears to be such widespread agreement that the disincentive effects that underly the public aid hypothesis exist. I refer you to the CRS-CBO study, Children in Poverty, Part I, Chapter V, where a study by Sheldon Danziger and Robert Plotnik, when properly interpreted, strongly confirms the arguments in my and Charles Murray's testimony. For example, it indicates that $ 12.6 billions (1983 dollars) of transfer payment income in 1967 produced a reduction (net of disincentive effects, which were positive) of 0.7 percentage points in the poverty rate for families headed by a person aged 20-59. By 1974, the level of transfer payment income had moved to $ 26.6 billion (again, 1983 dollars) and the net effect on the poverty rate was to reduce it by only an additional 0.3 percentage points (giving a total reduction of one percentage point). Some simple calculations from the Danziger-Plotnik findings indicate that the elasticity of the disincentive effects with respect to transfer payment income is 1.20 while the elasticity of poverty-reduction with respect to transfer payments is only -0.89. What this indicates is that further increases in transfer payment income would have the effect of producing relatively larger increases in disincentive effects than in transfer income induced poverty-reduction. At some point, with increases in transfer payment income, the disincentive effects will overwhelm the poverty-reduction effects. The only question that seems open to debate is the magnitude of what I call the threshold level of public aid in my testimony.

With respect to Question # 3, how long AFDC recipients stay on welfare, I cite for you the evidence reported in Children in Poverty, p. 219, to the effect that "the majority of persons enrolled in the program at any point in time are in the midst of /AFDC/ spells that last at least eight years." What interpretation you put on this statistic is a matter of perspective. It suggests that AFDC is not primarily something to handle incidental economic distress, that it deals with longer term poverty. Our analysis argues rather strongly that a significant portion of that poverty represents "poverty by choice", suggesting a poverty "trap". It is important to remember that almost 60 percent of the poverty observed at any point in time represents "spells" of poverty of eight or more years and that the average poverty spell for persons observed poor at any point in time is 11.0 years (p. 46, Children in Poverty).

Questions # 4 and # 5 deal with the phenomenon of declining poverty among the elderly. I decline to answer # 4. It is insulting and demeaning, an implicit attack ad hominem. It suggests that my motive in appearing at this hearing is to "grind the face of the poor". Further, the question is not germane to the issues at hand. Any useful remarks I have about this matter are contained in my answer to question # 5.

The decline in poverty among the elderly over the interval 1970-1983 is not surprising, on two counts. First, the period of "double-indexing" of Social Security benefits during the 1970's escalated the level of real transfer payment income accruing to this group. No one denies that there is a direct income enhancing effect associated with transfer payment income. The critical question is the impact of the transfers on work activity, relative to the income enhancing effect. This brings me to the second explanation for the decline in poverty among the elderly, their relatively low labor force participation rate. Currently, the labor force participation rate among the elderly (aged 65 and over) is about 11 percent, compared to about 70 percent for the remainder of the population aged 16 and over. Thus, the opportunity for labor supply responses to increases in transfers to operate is quite restricted. Incidentally, it is worth noting that the labor force participation rate among the elderly has fallen by about one-half since 1960. This is quite consistent with a labor supply response to rising levels of real transfer payment income.

As to the rise in poverty among children, our analysis indicates that a major factor in this respect is the labor supply disincentive effects discussed both in replies to earlier questions and in the technical submissions, especially the one entitled, "Suffer the Little Children: The True Casualties of the War on Poverty."

Finally, there is question # 6. The evidence cited in the body of the question, in conjunction with other data developed in the CRS-CBO study, argues strongly for the importance of work activity as a deterrent to poverty. The 1982-1983 poverty rate among children in families where only one parent worked full time was 9.9 percent, much lower than the overall rate of 21.7 percent. Where both worked full time, it was 2.6 percent. The important question is, "Why the relatively low volume of full-time work activity among parents of poor children?" The analysis contained in the two technical submissions for the record indicates that a significant source of this phenomenon is the work disincentives associated with the present level of transfer payment income available to low income members of the society.

As to the more general queries directed toward the witnesses, I must confess that there is little of a positive nature that can be said about the Great Society programs. They have almost totally followed the special treatment and transfer payment income routes, doing great damage to work incentives in the process. Beyond that, they have been remarkably inefficient in targeting on the "poor" population. For example, 1983 data from the Current Population Survey indicate that 14,521,000 households were receiving at least one non-cash means-tested government benefit. The same data show 12,469,000 households with poverty levels of money income. However, only 7,344,000 (less than 60 percent) of those households were receiving non-cash means-tested benefits. Over 40 percent of poor households did not receive benefits from even one of these programs. At the same time, for every poor household receiving these benefits, there was a non-poor household that was also getting them. Add this record of inefficiency in reaching the truly poor to the impact on work incentives and you have a devastating indictment of the social usefulness of the Great Society programs that have been the heart and soul of The War on Poverty.

RESPONSE OF PETER GOTTSCHALK TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE SCHEUER

Questions

1 **Cash plus in-kind transfers were about the same in 1977 and 1983.** Yet, the poverty rate, as you know, has increased from 11.6 percent to 15.2 percent. If Murray's thesis were correct, it should have gone down. How do you explain this phenomenon? Do you believe that the increase in unemployment from 7.1 percent in 1977 to 9.6 percent in 1983, and the real decrease in benefits could explain the increase in the post-transfer poverty rate?

2 Dr. Gallaway argues on page 4 of his testimony that social welfare programs have created "a sub-class of the American population that is detached from the mainstream of American economic life." That statement implies that a permanent population pool depends upon welfare for its sustenance. How do you explain the close correlation of increases in poverty with the overall performance of the economy? Indeed, when unemployment rose as it did in 1981 and 1982, so did the poverty rate. It would seem that the less fortunate in our society are indeed in "the mainstream of American economic life" because they are the first victims when things turn sour. Do you agree?

3 How long do most AFDC recipients stay on welfare? Would it seem to you that welfare is not the "trap" Mr.Murray implies; rather, the President's "safety net" is a better metaphor?

4 As you know, poverty among the elderly has declined as programs, like social security, which unlike AFDC is indexed to the rate of inflation, protect the aged poor from the perils of poverty. Is this something you regret?

5 What is the significance, in your opinion, that while poverty among the elderly, according to the CRS-CBO study Children in Poverty declined from 24 percent in 1970 to 14 percent in 1983, it has increased in children from 14.5 percent to over 22 percent in 1983?

6 According to the new CRS-CBO study Children in Poverty more than one-sixth of all poor children, 2.5 million, had at least one parent employed year-round at a full-time job? What in your opinion is the significance of this fact?

Peter Gottschalk's Answers

1. Do we know why many black male teenagers have lower labor force attachment than other socioeconomic groups?

No simple story gives a very good explanation of the low labor force participation of this group. Their labor force behavior does vary with the business cycle, indicating that low demand for their services is at least part of the answer. However,even during expansionary periods this group experiences more unemployment and has lower labor force participation rates than other groups.

While there is still a lot to be learned, it is hard to imagine that increased transfers are an important explanation. Unemployed male teenagers are not well covered under the major welfare programs and many do not qualify for Unemployment Insurance. This group simply receives too few transfers to exhibit large labor supply effects.

Furthermore, it should be remembered that this group makes up only a small proportion of the poverty population-- black males between the ages of 16 and 21 make up 4.5 percent of the persons in poverty. Thus, while unemployment among black youth is an important social problem its solution would have only a minor impact on poverty.

2. What are the sucesses and the failures of the Great Society?

As indicated in my written tesimony , the programs for the elderly were an unqualified success. The real value of Social Security increased and SSI was implemented during the same period that poverty rates among the elderly were cut in half. There can be little doubt that the expenditure growth was largely responible for the reduction in poverty.

Strategies to help the nonelderly poor gain marketable skills have turned out to be consderably less sucessful. While it has been demonstrated that many investments in training programs for women and youth offer benefits greater than costs, these programs are expensive. Sucessful stategies to help prime aged males have been the hardest to find.

3. What explains the increase in poverty between 1977 and 1983?

As my testimony indicated, rising unemployment is a key factor in explaining the rise in poverty. Increased transfers during the beginning of the period kept poverty from rising. When transfers started being cut, this further increased poverty.

4. Is there a permanent welfare or poverty class, as is implied by the Gallaway view?

The extensive evidence shows that there is considerable turnover in the poverty or welfare population. Bane and Ellwood estimate that half of AFDC spells are over within two years. Likewise the median spell of poverty will last less than two years. This is not to deny that a small percentage of those ever poor (or ever on welfare) will remain in that state for an extended period. One should , however, not use this minority to draw inferences about the larger population. If there is a welfare or poverty trap, the vast majority manage to escape.

5. Do I support the indexation of benefits?

I believe that the same arguments which have been effectively used to argue that tax rates should be indexed can be applied to welfare benefits. If benefits are to be cut, this should be the result of an explicit legislative decision, not the capricious result of inflation.

I believe that if such explicit decisions had to be made, benefits would not be cut. Legislators would not accept the argument that higher benefits increase poverty. Such arguements do not make common sense and are contradicted by massive empirical evidence. These arguements should be dismissed by thinking liberals and conservatives alike. (It should be noted that Charles Murray has rejected just such a position.)

6. What is the significance of the rise of poverty among children, even in families with a full-time year-round worker?

The recent rise in poverty was concentrated on the groups which had previously been less susceptible to poverty--male heads with significant labor market attachment. It was exactly the group with the least attachment to the welfare system which were the most likely to enter poverty. Such evidence directly contradicts the view that increased welfare is responsible for the rise in poverty.

If welfare caused poverty, then poverty among children in female headed households should have fallen as welfare benefits were being cut. Just the opposite happened.

RESPONSE OF ROBERT GREENSTEIN TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE SCHEUER

Questions

1 Cash plus in-kind transfers were about the same in 1977 and 1983. Yet, the poverty rate, as you know, has increased from 11.6 percent to 15.2 percent. If Murray's thesis were correct, it should have gone down. How do you explain this phenomenon? Do you believe that the increase in unemployment from 7.1 percent in 1977 to 9.6 percent in 1983, and the real decrease in benefits could explain the increase in the post-transfer poverty rate?

2 Dr. Gallaway argues on page 4 of his testimony that social welfare programs have created "a sub-class of the American population that is detached from the mainstream of American economic life." That statement implies that a permanent population pool depends upon welfare for its sustenance. How do you explain the close correlation of increases in poverty with the overall performance of the economy? Indeed, when unemployment rose as it did in 1981 and 1982, so did the poverty rate. It would seem that the less fortunate in our society are indeed in "the mainstream of American economic life" because they are the first victims when things turn sour. Do you agree?

3 How long do most AFDC recipients stay on welfare? Would it seem to you that welfare is not the "trap" Mr.Murray implies; rather, the President's "safety net" is a better metaphor?

4 As you know, poverty among the elderly has declined as programs, like social security, which unlike AFDC is indexed to the rate of inflation, protect the aged poor from the perils of poverty. Is this something you regret?

5 What is the significance, in your opinion, that while poverty among the elderly, according to the CRS-CBO study Children in Poverty declined from 24 percent in 1970 to 14 percent in 1983, it has increased in children from 14.5 percent to over 22 percent in 1983?

6 According to the new CRS-CBO study Children in Poverty more than one-sixth of all poor children, 2.5 million, had at least one parent employed year-round at a full-time job? What in your opinion is the significance of this fact?

Robert Greenstein's Answers

1. Several studies have been done of the increase in poverty (including analyses by Gottschalk & Danziger, the Urban Institute, and the Congressional Research Service). The studies generally find that the most important reason for the increase in poverty is the economic downturn and that the second most important reason is the reduction in benefits. A much smaller contributing factor was the increase in female-headed households. The fact that reductions in benefits increased poverty would indeed appear to present evidence contrary to Murray's thesis.

2. That changes in the poverty rate correlate closely with upturns and downswings in the economy has been established beyond question. Moreover, recent research shows that when the economy turns sour, low income black males are hurt worst. Finally, work by Duncan and Coe conclusively shows that the majority of the poor are not permanently poor or part of a permanent underclass, but rather are persons who are poor for a while and then leave poverty as the economy, and/or their personal situations, improve. Nevertheless, there is a subgroup of the poor who, while a minority of the poverty population, are poor for years at a time and do not move out of poverty when the economy improves. This subgroup is disproportionately female-headed and black, and can not be said to be in the mainstream of economic life. We need to be very concerned about this group.

3. Most recipients stay on AFDC only a few years or less -- which is strong evidence that AFDC is not a trap. Some, however, do stay on AFDC for extended periods of time because they are poor for extended periods of time. Still, there is little evidence that it is AFDC that is trapping these women into poverty. Rather, it is likely that most of these women would be long-term poor with or without AFDC and that AFDC helps them avoid greater destitution during these periods.

4. To the contrary, the decline in poverty among the elderly is something to be celebrated. It also shows that increased benefits, indexed to inflation, do reduce poverty. It is strong evidence that we should establish national minimum benefit levels indexed to inflation in AFDC.

5. The increase in poverty among children reflects the economic downturn (which has little effect on elderly poverty rates), the severe erosion of AFDC benefits during a time of high inflation in the late 1970's and early 1980's, budget cuts heavily concentrated in programs for families with children and increases in the number of female-headed households.

6. The significance is that working full-time is no longer enough to avoid poverty for many families. This is due to:

- a decline in the real value of the minimum wage of nearly 20% since 1981.
- sharp curtailment in AFDC benefits & other benefits for working poor families, especially in the 1981 budget cuts.
- sharply increased federal tax burdens for working poor families.

All of these issues indicate that the nation needs to make a concerted effort, as one of our principal national priorities, to adopt new policies to combat poverty among children.

RESPONSE OF CHARLES MURRAY TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE SCHEUER

Questions

1 Cash plus in-kind transfers were about the same in 1977 and 1983. Yet, the poverty rate, as you know, has increased from 11.6 percent to 15.2 percent. If Murray's thesis were correct, it should have gone down. How do you explain this phenomenon? Do you believe that the increase in unemployment from 7.1 percent in 1977 to 9.6 percent in 1983, and the real decrease in benefits could explain the increase in the post-transfer poverty rate?

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6 According to the new CRS-CBO study Children in Poverty more than one-sixth of all poor children, 2.5 million, had at least one parent employed year-round at a full-time job? What in your opinion is the significance of this fact?

Charles Murray's Answers

I have examined the written questions submitted by Congressman Scheuer. There were six of them, and I shall refer to them as ordered. Let me preface my remarks by noting that I dealt with these issues in my testimony, and that therefore my answers are brief.

Question 1. I have no idea what the question means by "Murray's thesis," nor can I think of anything I have written would lead to the "prediction" imputed to me. I do agree with the proposition that increases in unemployment are decisively linked to increases in poverty. As I put it in Losing Ground, "If one has no job, it makes no difference how much the economy grows. Poverty remains." (p. 69)

Question 2. No. Some people are unemployed because they cannot find a job no matter how hard they try. Some people are unemployed because, although healthy, they cannot hold, or do not choose to accept, any job. The notion of a permanent underclass is based on evidence that the latter group is large and has been getting larger.

Question 3. According to the data from the Panel Study of Income Dynamics, 30.2 percent of all persons on the AFDC caseload at any given moment of time during the study was in the midst of a spell on AFDC that would last for 8 or more years. More than three-fourths (75.6 percent) were in the midst of a spell of 5 years or longer. If one prefers to argue that most people are on AFDC for short periods of time, one may instead count everyone who has ever been on AFDC (even for only a few months), which balloons the denominator and thereby yields a rosier picture. (See Mary Jo Bane and David T. Ellwood, The Dynamics of Dependence: The Routes to Self-Sufficiency, paper prepared for the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services, June 1983, Table 1 and discussion, pp. 7-14.) With regard to the second half of the question, my answer is "no."

Question 4. It is good that poverty has declined among the elderly, and, as I stated in my testimony, I think that the increases in Social Security had a great deal to do with this trend.

Question 5. The significance is that a growing number of single women who are unable to provide for the care of children by their own incomes are nonetheless choosing to get pregnant, bear, and keep children rather than not getting pregnant, or getting married, or having an abortion, or putting the child up for adoption. This is in my view the most tragic and in the long term most profoundly destructive trend for poor communities of our time.

Question 6. The significance of this fact is that 83 percent of all poor children come from families in which no one works regularly at a full time job.